Accountancy

ESTABLISHED 1889

ACCOUNTING · MANAGEMENT · FINANCE

Accountants' Reports for Prospectuses

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Events Occurring Subsequent to the Balance Sheet Date

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Capital Allowances and Schedule E

THE SOCIETY OF INCORPORATED ACCOUNTANTS

DECEMBER 1953 TWO SHILLINGS

The Society

of

Incorporated Accountants and Auditors

President: C. PERCY BARROWCLIFF, F.S.A.A., Middlesbrough

Vice-President: BERTRAM NELSON, F.S.A.A., Liverpool and London

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Members use the designation Incorporated Accountant. Fellows may also use the initial letters F.S.A.A., and Associates A.S.A.A.

Admission to membership is by examination subject to satisfactory completion of articles of clerkship for five years (university graduates three years). Six years' approved professional experience may be accepted in lieu of five years' articles. Exemption from the Preliminary Examination is granted on production of certain educational certificates.

Articles may also be integrated with full-time study at certain universities. Under this scheme a specific university degree and the professional qualification can be attained in a total period of 5¾ years.

All candidates must pass the Intermediate and Final Examinations, except that graduates under the universities scheme are exempted from the Society's Intermediate Examination.

There are Branches of the Society in Scotland, Ireland, Canada, Australia, and South Africa, and District Societies in all parts of England and Wales, Northern Ireland, and India. Students' Societies and Students' Sections operate throughout Great Britain, Northern Ireland, and Eire.

Members of the Society are not allowed to seek professional business by advertisements or circulars.

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Accountancy

DECEMBER 1953

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Professional Notes

Transport Sale

THE RE-SALE OF ROAD HAULAGE VEHICLES TO PRIVATE OPERATORS IS NOW STARTING. There is available from the *Transport Commission* a first list consisting of 398 "units" (or in auctioneering terms "lots"). One of the aims of the denationalising Act was to ensure that the small man re-entered the road haulage business: to that end some of the units comprise only a few vehicles and all units are relatively small. When two further lists have been issued by the Commission, within the next two months, some 10,000 vehicles will have been put on offer, 2,000 in small units of no more than four vehicles each. No lots in these three lists will contain more than 50 vehicles, but some of the larger lots comprise buildings and ancillary assets as well as vehicles.

The larger operators will have their turn later. When the units in the three lists are disposed of, there will remain about 20,000 vehicles to pass from the nation's ownership. Companies, each owning a fleet of vehicles and other assets, will first be formed and then the companies will be sold.

The smaller units now being sold will carry with them the free grant for five years of an "A" licence without restriction to the 25-mile radius of operation. Despite the fact that the 25-mile restriction is to be abolished in a year's time, this grant is valuable. Licences will still have to be obtained by other operators under the Act of 1933, and even though licences are to be granted more freely, pretty stiff conditions will have to be satisfied by successful applicants.

Bids on the first list for vehicles only have to be sent to the Transport Commission by December 21, 1953; for units containing buildings, by January 11, 1954. The *Road Haulage Disposal Board* must approve the Commission's acceptance of any bid. Within fifteen days of acceptance 15 per cent. of the tender price must be deposited, and payments must be completed within a few weeks. There will be great activity in the near future among hire purchase and finance companies.

Repairs and Rents—

The Royal Institution of Chartered Surveyors must be gratified at having their scheme for increasing controlled rents (reviewed in a Professional Note in our issue of July, 1951, page 249), adopted in principle by the Government. In essence, the proposals announced in November by the Minister of Housing for a "repairs increase" to restricted rents follow the Institution's original plan of relating rent increases to the statutory repairs allowance given for rating purposes. Part II of the Housing Repairs and Rents Bill (Her Majesty's Stationery Office, 1s. 6d.) now sets out in detail the conditions under which such increases are to be permitted.

To take account of the rise in the cost of repairs, the Government now propose that controlled rents in England and Wales should be increased by an amount equal to twice the statutory deduction. This increase in rent of controlled houses is to be conditional on the landlord proving that he has actually spent money on repairs. As proof of his good faith, a landlord must show either (*a*) that he has spent at least six times the statutory deduction during a period of three years or (*b*)

that during the previous year he has spent at least three times the statutory deduction. This suggested expenditure test is causing a good deal of controversy. Landlords may find it difficult to spend the necessary amount on repairs, yet until the expenditure has been incurred no increase in rent will be permitted. It is understood that this expenditure test is only to be applied to the initial claim for a "repairs increase." Subsequently, the test will be the state of the house. A landlord will be able to collect the increased rent year by year only if the house is in good repair as respects both structure and decoration.

There is a further limit inherent in these rent proposals. Quite apart from restricting any increase to twice the amount of the statutory deduction for repairs, no rent is to rise above twice the existing gross annual value of the house. This condition aims at equalising the effect of the permitted increase, and takes into account the wide variations which are known to exist between the rents of houses under the Rent Restriction Acts. The present proposals certainly have an advantage over any scheme involving a general percentage increase in rents which would accentuate the anomalies in levels of rents, and in the long run prove an inequitable basis.

The Government's plan will be criticised on the grounds that it does not go far enough. With the cost of house repairs over three times as great as it was in 1939, it is indeed difficult to see how a rental increase limited to twice the repairs allowance is really adequate. The task of finding a calculation that is fair to both landlord and tenant is admittedly difficult, and the present scheme is put forward on the basis that nothing is to go into the landlord's pocket.

The White Paper announcing these proposals (Comd. 8996, Her Majesty's Stationery Office, 9d.) and the Housing Repairs and Rents Bill which gives effect to them do not deal solely with permitted rent increases. Housing conditions generally are reviewed and provisions made for increasing the financial assistance to owners who are prepared to improve or convert their properties. Under the Housing Act of 1949, grants can already be made of half the cost involved in providing modern amenities, such as bathrooms, hot-water systems and water closets, or in converting large houses for occupation by a number of families. These facilities are to be made more readily available to landlords in the hope that improvements and conversion will be encouraged.

It seems unlikely that the Housing Repairs and Rents Bill will pass through all its stages much before Midsummer, 1954.

—And Taxation

The landlord's income tax liability will be theoretically increased by an assessment on the additional rent permitted by the Housing Repairs and Rents Bill—in most cases under Schedule D as an "excess rent." The tax relief given under Section 101 of the Income Tax Act, 1952 in respect of expenditure on repairs and maintenance ought nevertheless in practice to counteract any additional tax payable.

Anomalies in this "set-off" are bound to arise because of the five-year basis applying to the landlord's maintenance claim. On the theory that no financial benefit is to be derived by property owners from these permitted increases to controlled rents, there ought certainly not to be any extra liability to taxation.

The Board of Trade Investigates

The Board of *Savoy Hotel* announced that they had applied to the Board of Trade, under Section 172(3) of the Companies Act of 1948, for an investigation into transactions in the Preference and Ordinary stocks of the company. The application asked in particular for disclosure of the true identity of the owners of stock recently purchased. The Board agreed to sponsor an investigation and appointed Mr. J. B. Lindon, O.B.E., Q.C., to act as inspector "for the purpose of determining the true persons who are or have been financially interested in or able to control or materially to influence the policy of the company, with particular reference to stock in which dealings have taken place on or after August 4, 1953."

This appears to be the first investigation of its kind—at least, it is certainly the first such investigation into dealings in quoted shares. To secure the investigation, holders of not less than 10 per cent. of the issued shares or 200 shareholders in all had to support the application. The directors apparently suspect the good faith of some of the recent buying, which led to a violent increase in the price of the stocks, followed by a slump on the announcement of the investigation. If it should be shown that certain parties held a specially favoured position or were in some way acting against the public interest the investigation will have served a very useful purpose.

Working Party on Hospital Costing

The Minister of Health, Mr. I. Macleod, has considered comments from hospital bodies on the reports on hospital costing prepared by King Edward's Hospital Fund for London, the Nuffield Provincial Hospitals Trust, and a sub-committee of the Committee of Regional Hospital Board Treasurers for England and Wales. These three reports were the subject of an article in ACCOUNTANCY for December, 1952, pages 395-6.

The Minister has now set up a working party to devise a system of hospital costing. The system is to be based on departments and services, and designed to supplement the present subjective accounts system under which expenditure is divided under headings such as salaries and wages, drugs and dressings, and provisions. The working party may suggest different costing systems for different types and sizes of hospitals.

The chairman of the working party is Mr. W. O. Chatterton, of the Ministry of Health. The eleven other members include the following members of the accountancy bodies: Captain J. E. Stone, C.B.E., M.C., F.S.A.A. (Director, Division of Hospital Facilities, King Edward's Hospital Fund for London); Mr. G. McLachlan, B.COM., A.S.A.A. (Accountant, Nuffield Provincial Hospitals Trust); Mr. F. S. Adams, A.S.A.A. (Treasurer, Birmingham Regional Hospital Board); Mr. J. W. D. Rowlandson, A.C.A. (Chief Accountant, St. Batholomew's Hospital, London); and Mr. E. A. Hall, A.S.A.A. (Finance Officer, Birmingham (Dudley Road) Grays Hospital Management Committee).

Revolving Loan Fund for Agriculture

A separate fund of £300,000 has been allocated to agriculture out of the £1,000,000 revolving loan fund set up under the arrangements for the expenditure of counterpart funds derived from United States " conditional " aid. The way in which loans will be made from the £700,000 fund for industry was described in our September issue, on page 281.

Small and medium-sized agricultural enterprises in the United Kingdom may now apply for loans to the Ministry of Agriculture and Fisheries, 3 Whitehall Place, London, S.W.1, the Department of Agriculture for Scotland, or the Ministry of Agriculture for Northern Ireland. Loans will at present be made only for the following purposes:

(*a*) to provide part of the approved capital cost of the acquisition and installation of farm grain-drying equipment and storage ;

(*b*) to assist in the provision of plant, equipment, and (exceptionally) working capital for existing or proposed agricultural or horticultural co-operative societies;

(*c*) to assist small farmers to acquire field machinery for joint use.

Loans will normally be repayable over a period of three to four years by instalments including interest at the rate of 4 per cent. per annum on the outstanding capital.

Applications will be considered by an advisory committee under the chairmanship of Sir Stanford Cooper, F.C.A.

Explanatory leaflets giving further particulars are obtainable from any of the three Agricultural Departments.

University Scholarship Scheme

The Council of the Society of Incorporated Accountants announces its intention to promote a University Scholarship Scheme in the Autumn of 1954, when applications will be considered from *Incorporated Accountants and accountancy students who declare their intention of qualifying as Incorporated Accountants*. The intention is to enable present or future members of the Society to undertake, or continue, a course of university study.

The value of a scholarship will be £100 per annum for a period not exceeding three years, and in any one year the number of scholarships current at the same time will be limited to three.

In general, applications will be considered from students about to enter a University, from present undergraduates in special circumstances and from Incorporated Accountants who either intend to read for a first degree or, having the necessary academic qualifications, propose to proceed to a higher degree. Candidates who do well in the Society's Intermediate examination and who satisfy the regulations for University entrants will also be considered. All applications will require a recommendation from the Head of an appropriate University department and the Stamp-Martin Professor of Accounting.

Annual Meeting of the American Institute

More than 2,000 Certified Public Accountants and their guests attended the sixty-sixth annual meeting of the American Institute of Accountants held at Chicago from October 18 to 22. The host to the national organisation was the Illinois Society of Certified Public Accountants, which is celebrating its fiftieth anniversary this year. There were forty-eight speakers at the various technical sessions, among them Mr. Meyer Kestnbaum, who is chairman of the Committee for Economic Development; Mr. T. Coleman Andrews, C.P.A., the Commissioner of Internal Revenue; and Mr. Walter J. Macdonald, President of the Canadian Institute of Chartered Accountants.

The most important of the papers and addresses were:

Cash Basis Statements—A Reporting Problem, by Mr. Harry C. Grumpelt; *Current Practices In Long-Form Report Preparation*, by Mr. Carl M. Esenoff; *Address*, by Mr. T. Coleman Andrews (Commissioner of Internal Revenue); *Learning to Live with a Flexible Monetary Policy*, by Mr. Meyer Kestnbaum; *What " Other " Procedures Are Acceptable*, by Mr. Russell C. Harrington; *The Employment of a State Society Executive*, by Mr. J. Wesley Huss; *Does " Codification " Change " Extensions of Auditing Procedures? "* by Mr. Fred G. Page; *The Work of the Committee on Accounting Procedure*, by Mr. Carman G. Blough; *Case Studies of Some State Society Projects*, by Mr. Raymond R. Rains; *Office Problems of the Local Practitioner*, by Mr. Winston Brooke; *Text of Speech*, by Mr. William D. Mitchell (Administrator of the Small Business Administration); *Personal Problems of the Local Practitioner*, by Mr. Robert E. Witschey; *Talk*, by Mr. W. J. Macdonald (President of the Canadian Institute of Chartered Accountants); *Accounting for Stock Dividends and Stock Split-Ups*, by Mr. Walter L. Schaffer; *Accounting for Stock Options Issued to Employees*, by Mr. William W. Werntz; *Budget Preparation*, by Mr. J. Brooks Heckert; *Budgetary Control for Medium Size Business*, by Mr. Charles S. Rockey; *Budget Preparation*, by Mr. Arthur H. Smith; *Events Occurring Subsequent to the Balance Sheet Date (A Study of Some Specific Cases)*, by Mr. Alan P. L. Prest; *Direct Costing as a Multiple Purpose Management Tool*, by Mr. Charles R. Fay; and *Direct Costing and its Implications in Financial Reporting*, by Mr. Roger Wellington.

The American Institute has courteously provided us with copies of each of these contributions and we should be happy to lend a copy of any paper to interested readers of ACCOUNTANCY. We also have pleasure in reproducing, with the kind permission of the Institute, the paper by Mr. Alan P. L. Prest entitled *Events Occurring Subsequent to the Balance Sheet Date*. The paper begins on pages 382-4 of this issue, and will be concluded next month.

Day Release Scheme for Scottish Students

The professions have for a long time been finding student training a thorny problem, and the accountancy profession has not been free from this difficulty.

After careful study of the question, the Scottish Branch of the Society of Incorporated Accountants has now organised a day release scheme. Under this scheme articled clerks are released during business hours to further their studies on an organised syllabus of classes to conform to the requirements of the Intermediate and Final Examinations. These classes are organised under the auspices of the Glasgow and West of Scotland Commercial College, who have assigned special lecturers. An excellent response has been made by the students. Attendance at day classes is entirely voluntary, but it is already evident that the majority of examination candidates appreciate the privilege and will take advantage of it.

Stock Exchange on View

Since Monday, November 16, the activities of the London Stock Exchange have been open to inspection by any member of the public who cared to obtain admittance to the new public gallery. The gallery is open from 10.30 a.m. to 3 p.m. on all normal business days. There is no charge for

admission and no more formality than may be involved in perhaps having to stand in a queue.

The Council of the Exchange, their Chairman (Sir John Braithwaite) and their architect are to be congratulated, not only on their idea but on its execution. The gallery is some 60 feet long and is cut off from the actual trading space by very solid glass. From it one can hear very little but can see a great deal of whatever may be going on. From within the House it is surprisingly inconspicuous.

At present the accommodation for the public is limited to this one gallery —which has cost a good deal more than the sum originally voted—and a small anteroom in which are displayed some historical documents and a diagram of the communications of the Exchange with the world at large and its functions. Later there is to be another room with more literature. If the public are interested in the working of the market, as they should be, there is no doubt that they will be supplied with all reasonable facilities for learning more about it. And with the opening of the gallery almost the last vestige of secrecy commendably disappears.

The Office Manager and the Accountant

In a paper with the title *Organisation of the Clerical Function and its Relationship to General Management—How can the Greatest Efficiency and Economy be Achieved?* which he read at the annual conference of the British Institute of Management held at Harrogate last month, Mr. A. J. Brockbank (Office Manager, *Glaxo Laboratories, Ltd.*), argued that management must acknowledge the need for a further specialist function, that of " clerical manager."

Generally speaking, the clerical function in business had not been subjected to the standardising influences which had characterised, for example, the accounting function: " whatever the industry, it will employ a traceable standardised form of book-keeping, but it will be rare to find two companies within the same sphere of industry which employ the same methods for documenting their orders." The clerical side of business was thus marked by lack of uniformity. The only common influence upon it had been exercised by the accountant. But Mr. Brockbank did not think that the accountant should normally take on, as well as his accounting duties proper, the responsibilities of clerical manager. He said:

> While accepting that in certain industries the vesting of responsibility for the clerical function in the Chief Accountant or the Secretary of a company has shown quite good results, I am afraid that in other circumstances the reverse is the case, because it does not follow by any means that a man who is qualified in accountancy is equally qualified in discerning the problems and providing the right answers in respect of the clerical function.

We would take issue with Mr. Brockbank on the second part of this statement. It seems to us that a good training, theoretical and practical, for one of the recognised accountancy qualifications fits a man, at least as well as any other training now open to him, for the specialist function here in question. At another point in his paper, Mr. Brockbank confessed that the clerical staff and managers of most companies had received no basic training at any period in their life, and he could point to no organised and specialised course of training that was open to them. In these circumstances, we do not understand how it can reasonably be contended that an accountancy qualification is not the best existing qualification for the " clerical manager."

It is otherwise when Mr. Brockbank argues that the post of clerical manager should be distinct and separate from that of Chief Accountant or Secretary. There is no doubt much to be said, certainly in the larger businesses, for the contention that the clerical manager should be responsible for all the clerical functions of the business, irrespective of the department in which they happen to fall, and that " the Chief Accountant, Secretary and Works Manager must accept the reasonable requests of this officer in respect of the clerical methods employed by them just as they accept the rulings of the Personnel Officer today." No doubt, also, it is not unreasonable that, as Mr. Brockbank maintains, the clerical manager should have executive authority for the service departments which provide a common service to other departments of a company—the postal service, central typing pool and so on.

One of the arguments deployed in the paper for the thesis that the clerical manager should be a specialist was that if he is not new methods are impeded. Lacking a basic training and having an economic value much greater to the business with which he has developed from a junior than to any other business, the departmental manager or executive today is often inclined to resist office innovations lest they detract from his usefulness to the company. (Mr. Brockbank did not draw the conclusion that a solution of this situation would be to ensure that the clerical manager had received a professional training). Further, the manager or executive charged with departmental responsibilities has not the time at his disposal, as the specialist clerical manager would have, for studying the detailed application of modern office equipment to the clerical function of his department, let alone to that of the company as a whole. Thus, office equipment was frequently wrongly used and perhaps abandoned. " The developments which are now occurring in the photographic field and the electronic field are adding still further to the complications of the co-ordination of clerical effort, but yet again, rightly used, they provide an invaluable means of achieving greater efficiency and lower operating costs."

The *Taxation* Diploma

Our contemporary *Taxation* has announced that it will award diplomas to " those who are successful in reaching the required high standard at an examination to be held in November, 1954, and in subsequent years." The examination is to be held in London and in provincial centres as required.

We have great respect and admiration for *Taxation*, which provides accountants with authoritative and up-to-date information on all aspects of taxation. But in our opinion the proper function of a journal is to confine itself to providing an information service in the broadest sense—reporting events and developments in its field, commenting on them and interpreting them; in brief, doing exactly what *Taxation* has done for many years with commendable success. The granting of

diplomas of proficiency in any subject seems to us to be outside the due scope of a journal, and to be best left to the educational and professional bodies, whose proper business it is to provide evidence for the public, under the most stringent safeguards, that a certain standard has been acquired by those who possess their qualification. In the accountancy field—in which taxation is a major subject—membership of any one of the recognised bodies is obtainable only as the result of long experience coupled with passing exacting examinations, so ensuring a high standard of proficiency. In consequence, the award of a diploma by a journal is redundant.

The Cost of Bad Roads—and of Improving Them

In urging higher priorities and increased expenditure of some £20 million to £30 million a year for five years on the nation's roads, which it states are the most congested in the world, the *Federation of British Industries* quotes an estimate made in 1947 that the annual loss to the country through inadequate roads was then about £60 million, in 1946 prices, and adds that the loss is now much greater. The £60 million was made up as follows: loss of time, £26 million; vehicle repairs, £9 million; accident insurance, £10 million; loss of fuel, £12 million; and loss of tyres, £3 million (nothing was included for loss of tempers!).

The method of financing the additional expenditure is a matter for Governmental decision, says the Federation, but it is of the opinion that if the funds initially made available are insufficient for the rapid expansion of the roadway system:

> industry would not be averse to meeting part of the cost by a limited application of tolls to special sections of new motorways, tunnels or bridges, particularly where the use of these facilities would substantially reduce the distance between points and in consequence save time and money.

Transport Costing by Local Authorities

The title of the booklet *Transport Costing* published by Gee and Co. (Publishers) Ltd., London, at 2s. 6d. net, for a Joint Committee of the Institute of Municipal Treasurers and the Institute of Cost and Works Accountants, leads one to expect a rather wider review than it actually contains. The Joint Committee almost wholly confines itself to a discussion of certain items of cost in the operation of road haulage fleets by local authorities.

The emphasis is on the ascertainment and control of vehicle utilisation and expenditure on repairs and fuel. As the writers suggest, it is of importance to keep a careful check on the utilisation of vehicles. It is equally important—and this is very lightly touched on in the booklet—to keep a careful check on the utilisation of drivers and other staff attached to the vehicles. The control of vehicles used does not alone serve to control staff costs on vehicles. Two other useful points on utilisation might well have been made. The first is that no amount of statistics of utilisation and ascertained costs will get anyone very far unless active steps are taken to bring the fleet into line with the real transport requirements of the authority. The second is that it will often pay to restrict domestic operations to those of a continuing or repetitive character, leaving the "occasional jobs" to an outside contractor. The contractor's charge for a particular operation may well be higher than the local authority's average costs but it may be worth paying a higher price for the "odd job" for the sake of avoiding the costs of buying and holding vehicles for occasional use.

The booklet sets out methods of analysis and ascertainment of expenditure on repairs and these should be adequate. However, it is open to question how many small undertakings could carry through to a conclusion the setting up of the repair standards here advocated: it is worth emphasising the point made in this and other parts of the booklet, that an over-elaboration of costing or statistical information is not a desirable objective. The test is that the information should be sufficiently comprehensive to permit a proper judgment of the efficiency of the service in all respects, and that it should be made available to the people responsible for providing the service in a form which will enable them to take action on it.

If a motor transport fleet has already been established, the attainment of efficiency may be a rather long process because it depends on internal organisation and the adaptation of the fleet to the demands made upon it. The economics of the process may be assessed from the statement in the report that a one per cent. improvement in vehicle utilisation—which does not mean only using existing vehicles better, but also using fewer vehicles to do the same job—might produce national economies of the order of £4 million a year.

The booklet does not purport to be a text giving a precise formula which anyone can use to control and study the efficiency of internal transport operations. Circumstances differ so much among the authorities that it would hardly be possible to lay down such a routine. But the Municipal Treasurers and Cost and Works Accountants have given us a booklet which will stimulate thought and to those who aim to improve their internal transport services will suggest the lines upon which they might work.

Economising on Working Capital

Mr. W. A. Harvey, B.COM., C.A., F.C.W.A., secretary and management accountant of W. Symington & Co. Ltd., addressed the Midland Regional Conference of the Institute of Cost and Works Accountants last month on *The Maintenance of Working Capital*.

He pointed out that a business must normally pay for its labour and its raw materials before—sometimes long before—the cash started to flow in. It was dangerous to attempt to trade at a higher level of turnover than the liquid resources would support.

The management accountant was concerned with every aspect of the business, since everything resulted in a profit or a loss. But he should first look round his own department to see what he could do to help to swell the fund of working capital. Possible steps would include prompt posting of invoices to customers, the following up of dilatory payers, and taking advantage of cash discount. Extended credit for one month, if obtained by the loss of 1½ per cent. cash discount, was in effect costing 15 per cent. per annum—a heavy price to pay for defective routine.

In every business a perpetual inventory system should be employed, so that obsolete and slow-moving items could

be disposed of and space freed. But at the same time the cost of stock control, like other costs, must be kept as low as was consistent with efficiency.

Fixed ideas on necessary profit margins could be very dangerous. It was desirable to aim at securing not less than the average rate of return on capital employed in the industry; but where productive capacity was not fully employed marginal costing might be used to increase overall profits by price discrimination between different classes of customer. Care must be taken that business at normal selling prices was not affected, and that all overheads were absorbed and a satisfactory profit obtained.

The Costs of Service Departments

Another paper at the Institute of Cost and Works Accountants Midland conference (see the preceding note) was *The Control of Service Department Costs*, by Mr. F. Clive de Paula, T.D., A.C.A., A.C.W.A., a partner in Messrs. Robson, Morrow & Co.

Mr. de Paula emphasised the importance, in establishing budgets of expenditure for service departments (boiler house, maintenance, transport department, and so on), of distinguishing fixed costs from those which varied directly with the level of output. The quantity of service required by the "user" departments must also be budgeted—this will often have been done as part of the initial calculation made when establishing the installed capacity of the service department.

The price at which service is charged from one department to another would normally be its cost. But a works manager might reasonably compare the cost of a service (for example, painting) by the works maintenance department with competitive tenders by outside contractors: this was one of the few available safeguards against concealed and uncontrollable inefficiencies in service departments.

Economy of consumption by the user must mean loss of output by the service department, and probably no true economy would be realised until the latter reduced its labour force. If the service department had a substantial proportion of fixed costs, an economy by one department would mean an increased charge for the service to other departments. Mr. de Paula therefore suggested a two-part tariff, the fixed and variable costs being charged out separately to the user departments.

A training department must keep track of the cost of training employees: the trend of its costs might be helpful in considering whether the training was justified or whether a different method of training should be used.

Costs of a selling depot, when some products went through the depot and some did not, would be charged out to the different products to give more accurate product costs.

It might be found that one product took a greater proportion of the selling-effort than another, or that one selling channel cost more than another—possibly 80 per cent. of the business required virtually no effort, but the remaining 20 per cent. might absorb 90 per cent. of the selling effort and cost. In circumstances of this kind differential costs should be established for the different types of customer, in order to keep control of their comparative degrees of profitability.

Incorporated Accountants' Conference, 1954

As announced in the October issue of ACCOUNTANCY (page 315), the Society of Incorporated Accountants will hold a conference at Eastbourne from Tuesday evening, June 1, to Friday morning, June 4, 1954.

Members attending the conference may wish to extend their stay at Eastbourne over the Whitsun weekend, which immediately follows the conference (June 5 to 7). In any event, hotel reservations both for the conference and for Whitsun should be made before Christmas.

The conference programme is not yet complete but it will include the presentation of four papers; a Society dinner on June 1, followed by a civic reception; a conference banquet; a dinner dance; a golf competition for the Nicholson Trophy, organised by Incorporated Accountants' Golfing Society; and visits to places of interest in the vicinity.

The conference fee will be £7 7s. per head (exclusive of hotel accommodation and visits). The form which has now been sent to all members of the Society should be completed and returned to the Secretary at Incorporated Accountants' Hall not later than December 14.

Sir Thomas Keens

As we go to press we learn with very great regret of the death on November 24 of Sir Thomas Keens, D.L., J.P., F.S.A.A., senior past-President of the Society of Incorporated Accountants, at the age of eighty-three. An obituary notice will appear in our next issue.

Shorter Notes

Farm Credit

The *National Farmers' Union* is setting up a working party to study credit facilities for agriculture. A new company, the *National Farmers' Union Development Company*, of which the National Farmers' Union will be the sole member, is to be formed; one of its functions will be to develop any production credit scheme that may be established on the recommendation of the working party.

The Public Trustee

The *Public Trustee* accepted 534 new cases during the year ended March 31, 1953. This was 34 fewer than in the previous year. The average value of trusteeships was £12,862, against £14,675 in 1951-52, and of executorships £13,886, against £16,514. The total of cases accepted to March 31, 1953, was 46,705, of which 27,978 had been completely distributed, leaving 18,727, with a total value of £272·3 million, under administration. The Public Trustee employed a staff of 691 at March 31, 1953. In the year 1952-53 a deficit of £77,184 was incurred, the worst outcome since the war. There were also deficits in the years 1945-46, 1947-48, 1948-49 and 1951-52, and the Public Trustee has lost £155,732 since 1945.

The Rating and Valuation Association

The Incorporated Association of Rating and Valuation Officers, founded in 1882, has changed its name to *The Rating and Valuation Association*. The main reason for the change to the new title, which has the advantage of being shorter than the old one, is to avoid misunderstandings arising from the use of the word "officers." The old title was misleading about the extent to which membership of the Association is available and suggested that the Association's primary concern was with the service conditions of its members, whereas it is solely concerned with their professional interests. The initials of the new title conform to the designatory letters used by the members of the Association (F.R.V.A. and A.R.V.A.).

Could *more* accounting work be done ...with fewer machines?

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Accountants' Reports for Prospectuses

THE INSTITUTE OF CHARTERED Accountants in England and Wales has issued its sixteenth set of recommendations on accounting principles. This latest set carries the title *Accountants' Reports for Prospectuses: Adjustments and other Matters.*

So far as concerns the more positive part of the publication, that containing the recommendations—the earlier part is a useful summary of present practices and legal requirements—the Council of the Institute acknowledge that the form of the accountants' report is a matter within the discretion of the accountants acting. This comment is important. The Institute's pronouncements in this series have come to have a wider significance than simple recommendations to members of the Institute and have tended to be regarded as stating the best practice in the profession generally. We in no way quarrel with this state of things, but we think it is to be emphasised that occasionally there may be differences of view within the profession upon issues which are the subject of recommendations in this series. It is perhaps as well to set out the points at which, as it seems to us, some accountants may diverge from the view taken in the present recommendations. We do so in no carping spirit of criticism but only to introduce qualifications in what might otherwise appear to be unqualified statements of the best practice of the accountancy profession generally.

One of the recommendations is that the accountants' report need not include figures showing Excess Profits Tax, National Defence Contribution, Profits Tax or Excess Profits Levy, unless there are special circumstances. The next paragraph suggests that if these taxes are shown in a separate column it will be for the accountants to decide whether to show the profits after deducting those taxes. What exception, however, can there be to having a third column to reflect profits after those taxes? It makes for clarity and simplicity, elsewhere strongly recommended. If the tax charge is shown it seems to imply that the charge has some special significance. Further, the Institute might have suggested that the reason for the inclusion of tax figures should be stated.

It is recommended that "in the absence of special circumstances it is inappropriate to make an adjustment for interest where a bank overdraft is to be repaid or reduced out of the proceeds of the issue." If the company is indebted to its bankers on a fluctuating overdraft and makes an issue of shares to avoid bank borrowing it seems right to increase the profits by this interest, which will not be payable in the future. The saving forms part of the profits available for distribution. If the proceeds of an issue are to be used for capital expenditure no adjustment should be made, because the new moneys will not be available to repay the overdraft.

A recommendation is made that "the report should make clear whether an amount has been set aside for future income tax and, if so, should specify the amount and the basis on which it has been computed." The treatment of income tax bears heavily on the availability—or, rather, the lack of availability—of future profits. If the profits for the year immediately following the report have decreased it can well happen that unless provision has been made for future tax the ensuing profit will be substantially absorbed by the tax charge. Would it not, then, have been preferable if the recommendation had been worded to the effect that the accountants should state in plain terms if an amount had not been set aside for future tax, and if not what amount would be required? In some instances an appropriation for future tax, when deducted from net assets, would reflect net worth less than the placing value of the shares. Such circumstances should be disclosed in a positive rather than in a negative manner. Our tax laws are too complicated to expect the lay reader to understand the niceties of accounting phraseology when applied to taxation.

Another recommendation suggests that as the report deals with the assets and liabilities at the last balance sheet date the subsequent proceeds of an issue should not be included. The recommendation then goes on to say this can be appropriately dealt with elsewhere in a prospectus. This seems to beg the question: what is the most appropriate place for dealing with it? In our view, the section of the report dealing with assets and liabilities is the most appropriate place for an item which increases the net worth. What can be plainer than the following?

Net assets at Dec. 31, 1952...			x
Add: Proceeds of issue of 200,000 6 per cent. Preference Shares at par		200,000	
Less: Expense of issue ...		x	
			x
			x

It is appreciated that the accountant has no responsibility at law concerning estimated future profits, nevertheless one would expect recommendations dealing with the accountant's duty to his clients to state that he should check that the profits since the date of the last balance sheet are in accord with the estimate. One of the most essential parts of a prospectus is the estimate of future profits and it surely behoves the reporting accountants to be reasonably satisfied, if necessary by the preparation of draft accounts, that profits are being earned in line with the estimate. More particularly is this necessary when more than six months have passed since the last balance sheet date.

Events Occurring Subsequent to the Balance Sheet Date

A Study of Some Specific Cases

By ALAN P. L. PREST

This paper was delivered by Mr. Prest at the annual meeting of the American Institute of Accountants held at Chicago in October (see our Professional Note on page 377 of this issue). We think that Mr. Prest's paper will be of considerable interest to accountants in this country, for despite the differences in law and practice, the problems he discusses are largely common to the two countries. With the kind permission of the American Institute of Accountants, we are reproducing it below and in our next issue.

IT IS GENERALLY AGREED THAT THE PRIMARY RESPONSIBILITY for adequate disclosure of important events occurring subsequent to the balance sheet date rests with the officials of the company since such events have a bearing on the financial statements which represent management's progress report. The independent accountant is called upon to express his opinion on the representations made by management. Thus, if the disclosures are not reasonably adequate, the inadequacy is first chargeable to the company's officials, whether the transaction or event occurred before or after the date of the financial statements. If the independent accountant decides that the disclosures are inadequate he must make the disclosures which he believes to be necessary in his own opinion on the financial statements. If, however, no additional disclosures are incorporated in his opinion, he has joined with management in assuming responsibility for the adequacy of the disclosures.

Before embarking on a study of some specific cases of events occurring subsequent to the balance sheet date it would be logical to review any pronouncements by an authoritative body which might help to clarify the independent accountants' responsibility for their discovery and disclosure. If such a pronouncement was available it would provide a reasonable starting point for determining what procedures the independent accountant should follow after the date of the financial statements.

The independent accountant should be aware of the statement contained in Section 11 of the Securities Act of 1933 which defines the basis of a defence of persons other than issuers who are charged with civil liability for false registration statements. It states in effect that no person other than the issuer shall be liable who shall sustain the burden of proof that he had no reasonable ground to believe, and did not believe, at the time such part of the registration statement became effective, that the statements therein were untrue or that there was an omission to state a material fact required to be stated therein, or necessary to make the statements therein not misleading or that such part of the registration statement did not fairly represent the statement of the expert.

The Act also states that in determining what constitutes reasonable investigation and reasonable grounds for belief, the standard of reasonableness shall be that required of a prudent man in the management of his own property. This is hardly the type of statement which would prove helpful in defining the independent accountant's responsibility with respect to subsequent events.

The Courts likewise offer very little help on this point. Mr. Louis N. Rappaport, in an article appearing in the March, 1953 *Journal of Accountancy*, dealt very adequately with what is apparently the only reported civil suit instituted under Section 11 in which a Court has been called upon to consider an independent accountant's responsibility for the disclosure of events occurring after the date of the financial statements. This case, known as the *Shonts* case, was decided about fourteen years ago by the District Court for the Southern District of California. For this discussion it is sufficient to mention that the Court held in favour of the independent accountant as the event in question occurred twelve days after the date of his opinion. The event occurred on January 31, 1937, and it is not clear whether the effective date of the registration, which was stated to be February 3, 1937 as of January 19, 1937, had any bearing on the decision. Suffice it to say that this case does not establish a good precedent on which to base a conclusion that the independent accountant's responsibility ceases as of the date of his opinion.

The subsequent events which form the basis of the following comments were drawn from what appears to be the most prolific and, at the same time, public source of specific cases. They were found primarily in registration statements filed during the first half of 1953 under the Securities Act of 1933. This source was utilitised because it generally permits the maximum interval of time for the development of the event, namely, the interval between the date of the financial statements and the effective date of the registration statement.

Almost half of the registration statements selected for review disclosed subsequent events. Notations were made of a total of one hundred and eighty-seven events contained in eighty-four registration statements which were covered by the opinions of twenty-four different firms of independent accountants. This should emphasise the importance of the problem to the profession.

The results of this study will be considered from the following standpoints:

(1) What types of subsequent events were encountered?

(2) Where in the registration statement are the events most frequently disclosed?

(3) Did the subsequent event have any effect on the date of the independent accountant's opinion?

(4) How long after the date of the financial statements does the independent accountant's responsibility extend?

(5) Through what procedures were most of the subsequent events brought to the independent accountant's attention?

(6) What procedures are currently being followed by the

independent accountant to ascertain the existence of subsequent events for an S-1 filing?

To obtain an indication of the profession's experience and current practice with respect to the last two points, brief questionnaires were mailed to each of the twenty-four firms of independent accountants whose opinion was contained in a registration statement disclosing a subsequent event. The larger firms, of course, received several of these questionnaires and it may be interesting to note that, in total, approximately seventy-five per cent. of the questionnaires were returned.

What types of subsequent events were encountered?

A study of the subsequent events disclosed that they fell into three distinct categories (1) those which could be measured in dollars and have been given recognition in adjustments of the financial statements, (2) those which could be evaluated in dollars but are to be accounted for in the future, and (3) those which could not currently be so measured.

Events of the first category included tax refunds and retroactive rate increases or decreases. Very few examples of this type of event would come to light in this type of review unless the adjustment in the financial statements was described in the notes to the financial statements.

Upon analysis, the 187 events were found to fall into the following categories:

Description of event	*Number of times event was reported*
Expansion or contraction of short-term borrowings, transactions or proposals involving additional financing, changes in capital structure and resulting effect on surplus restrictions	76
New tariff or rate effective subsequently or retroactively; release of impounded revenue; increases in costs of public utility companies	23
Dividends declared or paid; stock dividends or splits	18
Acquisition or proposed acquisition of assets or stock of another corporation	12
Securities called for redemption; redeemed, purchased, retired, cancelled or exchanged ...	10
Agreements for construction or acquisition of additional plant facilities	6
Amendment of loan agreement or trust indenture and effect on surplus restrictions	5
Payment of income tax or receipt of refund, or agreement with bureau	4
Establishment or amendment of pension plan ...	4
Entry into lease agreement or sale and lease back agreement	4
Changes in depreciation policy or completion of depreciation study	4
Reduction of work hours, strike, wage dispute, wage increase and effect thereof	4
Description of or transactions relating to stock option plans	4
Miscellaneous	13

The miscellaneous caption includes the following:

Comments on interim earnings between dates of balance sheet and opinion.

Status of litigation or receipt of amount of judgment.

Comment on subsequent collection of profits earned in countries where exchange restrictions exist.

Write-down of properties occasioned by revision of geologist's estimate of crude oil preserves.

Description of transactions which produced a deficiency in working capital at the effective date.

As may be noted, the list included many events which could materially change the significance of the audited financial statements from a "prospective" point of view, such as those involving increased wages and material costs, rate adjustments in the case of utilities, and increases or decreases in dividend restrictions resulting from additional borrowings or reduction in debt.

Where in the registration statement are the events most frequently disclosed?

By all odds the most common place was in the notes to the financial statements, sometimes in the form of a reference to the forepart of the prospectus, such as the section dealing with pending litigation.

The disclosures were generally found to be interspersed among the other notes or even made a part of another note. As I shall point out later, I believe that, in most cases, the statements would be more meaningful if the notes dealing with the subsequent events were clearly segregated from the other notes, with appropriate cross-reference where necessary.

The notes to the summaries of earnings were found to refer to events affecting past and future earnings, capitalisation changes, future bond interest and preferred dividend requirements.

In only one of the registration statements was a subsequent event mentioned in an opinion, and in that case, it was introduced by amendment to supplement an explanation contained in the opinion originally filed.

Where the subsequent events involve a substantial merger, a reorganisation, recapitalisation or other very material adjustment, it is quite common to furnish, in addition to the regular financial statements, such *pro forma* statements as will adequately show the effect of the transactions described. This technique was recently used in the proxy statement of a movie company which, under a consent decree, was about to separate its picture making and exhibiting functions into two separate and distinct corporate entities. In this situation the financial statements were supplemented by *pro forma* balance sheets of the new theatre company and the new picture company and related *pro forma* profit and loss statements for three years. In addition, a statement was submitted showing the balance sheet of the old company before the reorganisation, the effect of the reorganisation and separation and the resultant *pro forma* balance sheet of the old company. A note to this statement disclosed that the adjustments made in accordance with the plan of reorganisation and segregation of assets and liabilities gave effect to the proposed formation of the two new companies and the proposed transfer of assets and liabilities to those companies, all of which was to take effect after the date of the balance sheet. The note went on to state—obviously the opinion of independent public accountants does not cover such proposed transactions.

An interesting illustration of the disclosure of a subsequent event in the opinion of the independent accountant was noted in the last annual report of an automobile manufacturer. A paragraph in the opinion stated that as a part of the company's programe for the continuance and expansion of its automotive and other operations a wholly owned subsidiary had entered into an agreement to purchase the inventories, plant and equipment and certain other assets of another motor company and that arrangements had been made for substantial additional financing and for certain changes in the debt and capital structure of the company and its subsidiaries. It further stated that the transactions had been approved by the stockholders of the selling company and that further details of these contemplated changes were contained in a note to the financial statements. The note covered more than two pages of the printed report and the effect of the transactions was reflected in two *pro forma* balance sheets which accompanied the report; one for the consolidated companies and one for the wholly owned subsidiary which had entered into the described agreement.

Did the subsequent event have any effect on the date of the independent accountant's opinion?

In many instances it was not practicable to compare the date of the opinion in the registration statement with the date of the opinion in the published accounts of the company. However, a study of twenty-five registration statements reveals that, in general, four different approaches were used in the selection of the date of the opinion:

(1) In ten instances the opinion in the registration statement was dated after that of the published accounts and coincided with or was subsequent to the date of the subsequent event.

(2) In seven instances the opinion was dated after the occurrence of the events mentioned in the notes but " as of " the date of the opinion which appeared in the published accounts of the company.

(3) In six instances the date of the opinion appearing in the published accounts of the company was retained even though events occurring subsequent to the date of the opinion were covered in the notes to the financial statements.

(4) In two instances the opinion date of the published accounts was retained but the subsequent events were clearly segregated from the other notes by a centre or side caption to indicate that such events occurred subsequent to the completion of the examination by the independent accountant.

Although the last method was used only twice, it seems to me to be by far the most realistic since it has the dual advantage of leaving intact the notes originally covered by the independent accountant's opinion, and clearly segregating for the reader the events which have occurred subsequent to the completion of his examination. The segregation of the subsequent events gives them a connotation different from the other notes which I believe to be desirable.

This method is illustrated in the case of a company which filed two registrations within a period of about six months. The last note in the first filing stated that the long-term debt presently being negotiated by the company would impose certain restrictions on the availability, for the declaration of cash dividends, of the earnings retained in the business.

The second registration statement included unaudited financial statements for an interim period and three notes appearing under a centre caption " Events subsequent to Completion of Examination by Independent Public Accountants." The first of such notes disclosed the consummation of a ten-year loan aggreement, described the basis of restriction on the earnings retained in the business and showed the amount of the restricted surplus at the date of the interim statements.

One additional case was noted in which the independent accountant dated his opinion—" November 14, 195[illegible] (except as to Note L of ' Notes to Financial Statements ' as to which the date is January 31, 1953)."

How long after the date of the financial statements does the independent accountant's responsibility extend?

The possible effect of a subsequent event on the date of the independent accountant's opinion logically leads us to a consideration of the period for which is responsibility may last. Under certain conditions there may be as many as four different periods. The first period would extend from the date of the financial statements to the date of the opinion in the published report to the stockholders; this date would generally coincide with the completion of the independent accountant's field work. If there is an abnormal delay in furnishing such opinion to the client, the period of the independent accountant's responsibility might be extended.

The second period would extend from the date of the financial statements to the date of the opinion in the appropriate annual report (usually Form 10-K) filed with the Securities and Exchange Commission. In this case the opinion date is generally the same as the one used in the report to stockholders, and again, if there is an abnormal delay in forwarding such report to the client or to client's counsel, the period of the accountant's responsibility might be extended.

Obviously, the independent accountant's responsibility should not be extended by any undue delay on the part of his client in issuing the report to stockholders or in filing the appropriate report with the Securities and Exchange Commission.

The third and fourth periods, which are inter-related, would arise if the same company filed a registration statement under the Securities Act of 1933. The third period would extend to the filing date of the registration statement and the fourth period to the effective date, generally not more than twenty days after the filing date.

The 1953 Act leaves no doubt that the accountant's responsibility does not terminate until the registration statement becomes effective. Section 11 of that Act states in effect that in case any part of the registration statement, when such part becomes effective, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein, or necessary to make the statements therein not misleading, any person acquiring such security may sue the independent accountant who has, with his consent, been named as having certified any part of the registration statement.

(*To be concluded*)

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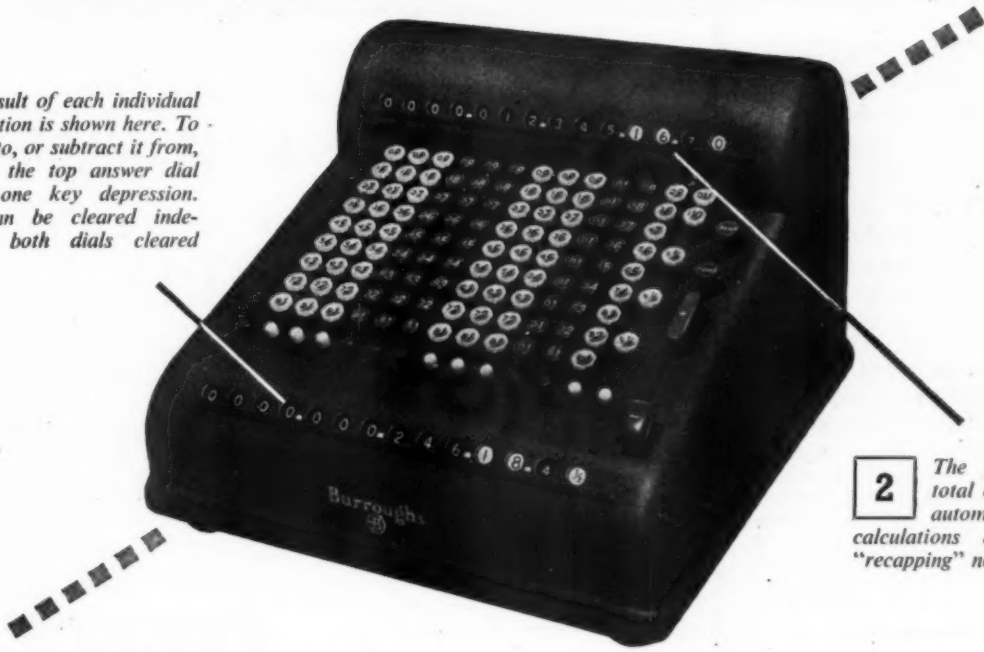

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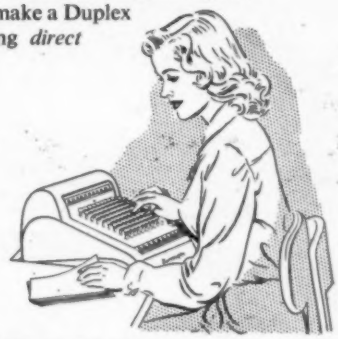

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The Management and Organisation of an Accounting Department

A Survey having particular reference to the Evolution of the Management Accountant

By S. C. TYRRELL, F.C.W.A.

THE SUB-TITLE OF THE PAPER IS NOT without its significance, when read in conjunction with the name of the British Institute of Management. It will be my hope, however, that in the process of dealing with the organisation of the accounting function I shall, in addition to giving some clear and practical guidance to those who are in any way interested in securing a clean and straightforward organisation plan for an accounting department, indicate in a general way the scope and obligations of the management accountant, or as he has been variously called before, the "accountant in industry" or the "industrial accountant."

As it is quite important to be able to identify the type of accounting with which we are to concern ourselves, whether for instance it is conventional, orthodox, financial, cost or integrated accounting, I worth-while preliminary is to outline quite briefly the history and the development of management accounting up to the present day.

I would not have it thought that it is my intention to suggest that management accounting is the only grade of accounting to which the principles of good organisation should be applied, but I wish it to be seen that management accounting must comprise the most advanced techniques and thus calls for specialist training and extensive experience *within industry*, as much as for sound routine.

A survey of the methods of organisation required to make an effective management accounting department will show that the lessons to be learned will be applicable to the other types of accounting mentioned above, except that from an organisation viewpoint the degree of decentralisation will tend to be considerably less in orthodox financial or normal cost accountancy.

Modern developments really commenced with the emergence of cost accounting as a separate specialised branch of the profession during the first great world war of 1914-18 which undoubtedly introduced a new era, or phase, for a function which—although by this time a statutory obligation on all limited liability companies—had hitherto been neither highly regarded as a constructive occupation nor recognised as a specific aid to management.

It is more or less true to say that, with the extension of equipment and the mechanisation of manual production processes proceeding on an ever-increasing scale, the orthodox and accepted methods of recording the financial history of a company left so much to be desired that a rapid advance in specialisation for the purposes of serving management became inevitable.

Considerable success attended the introduction of new techniques for costing, and success which could be quite easily measured in terms of increased profits and safeguards to solvency invited attention to still more important fields in which the accountant in industry was likely to make and eventually did make a highly significant contribution.

Meanwhile the task of management had been steadily growing more complicated, whilst at the same time the economic conditions in which production had perforce to be carried out between the two great wars brought an overworked and overstrained top personnel face to face with the knowledge that without some reliable instrument for creating a plan, for detecting departures from that plan, and for rapidly assessing the consequences of such departures, the normal hazards of business were greatly and dangerously increased.

It was disappointing that at this point in the evolution of accounting in industry two catastrophes rapidly succeeded each other. The first was the world depression of the early thirties and the second the outbreak and protraction of the second great world war.

There is no doubt that despite the progress which had been made in the development of the techniques of budgetary control they were subjected to considerable strain when the economic blizzard swept through industry between the two wars, but it is equally certain that even though there were casualties, in the main the provision of budgetary control for the use of enlightened directors proved a sheet anchor in this hazardous period. The outbreak of war in 1939 imposed a disproportionately heavy burden on accountants, as there was little protection for accounting staff as a reserved occupation against the demands of the fighting services, and progress in the development of the science which had up to this stage been fairly rapid and consistent was perforce slowed down.

Nevertheless, the responsibilities of accountants in industry during the war period undoubtedly widened, deepened and became weightier, because although the determining factor in production decisions had ceased to be *cost*, the eyes of management were as a stark necessity concentrated on the avoidance of waste both in men and materials, and in this field the cost or works accountant proved himself to be of great worth. It was during this period that management learned to rely more freely on the forecasting ability of the accountant, and thus were created still further obligations which it was incumbent upon the successful industrial accountant to fulfil.

At the end of the 1939-45 hostilities industry was called upon to rise to the emergency inseparable from a change-over from the making of war weapons to the products of peace; moreover, during the early postwar years an under-nourished and impoverished world provided conditions of demand so far in excess of supply that, in every stratum of business, mentalities were developed which were inimical to competitive economic production. Such times could not, of course, last indefinitely and before long this country was faced with the task of balancing excessive imports with expensive exports and replacing subsidies received from a generous United States by additional effort and more economical utilisation of resources.

The enormous additions to the responsibilities of directors and executives which resulted could not have been carried so efficaciously as they were had not the accounting profession risen to the occasion and placed at the disposal of Boards and managing directors sound advice, practical proposals and well conceived methods for day to day control, by which the ever changing commercial and industrial situation could be gauged.

Thus by a process of evolution (of which

A paper given at the Winter Proceedings of the British Institute of Management, March 17, 1953.

the pace varied widely under the influence of extraneous causes) the role of the management accountant has emerged to take its place as a function of management with peculiar and clearly defined responsibilities for the financial and economic well-being of the industrial undertaking of which it is part. This process of specialisation has been sketched over some four decades only, but its origins can be traced through the earlier developments of the science and art of management which will now be briefly indicated.

Management—Recent Developments

The essence of management remains today what it was six generations ago when it emerged as a recognisable occupation during and following the Industrial Revolution. It is still a human process and primarily consists in instructing, encouraging, disciplining and supervising a working team of human beings. Materials enter into the field of management but as secondary objectives: it is *people* who are managed, not things: things *are* affected but always through human agency.

Although the essence of management remains unchanged, the method of carrying this responsibility has altered considerably in the last 150 years. The fundamental duty is the same as ever, but the tools with which the task is carried out have developed and multiplied: this was an inevitable accompaniment of the increase in the volume and variety of production. Whilst, therefore, the nature of management is what it has always been, the means by which the role is fulfilled have changed completely and techniques have been developed for which specific training is required. Management has become much more nearly a science than the haphazardly acquired art it was a century ago.

The tools of management have evolved according to the law of specialisation. The growth in size of the average undertaking has enforced an analysis of the functions of management, and the devolution of responsibilities which has followed has called forth the specialist in these several fields of activity which are represented by the now universally recognised separate functions of management.

Of these functions, that of finance and accountancy was one of the earliest to be recognised but the emergence of a professional class under the generic title of accountants, curiously enough, *preceded* by a considerable period the acceptance of the fact that management had changed over from a privilege of proprietorship to a highly skilled profession for which technical training and special education is necessary, although the term accountant had, certainly, been applied in the main to practitioners undertaking audit work.

An understanding of this fact is requisite before the anomalies which are found in the organisations of many industrial undertakings can be explained and condoned.

As a generalisation it can be stated that the farther away a business moves from the stage at which the founder and his descendants personally *managed*, the more easily recognisable will be the separate functions comprised in the management of the undertaking. Furthermore, the longer the interval between the disappearance of the founder and his posterity from executive control the more likely is it that professionally qualified officials will be found carrying out specialist functions according to accepted professional standards.

It follows, therefore, that two factors will in general be at work and the type of organisation of the functional activities of management will be found to have been determined by the resultant of the rate of growth and the age of the concern.

The layout of an accounting department depends, therefore, in no small measure on the stage of development of the undertaking. The organisation required is dictated basically by the sense of need experienced and admitted by the individual or individuals in executive control of the business.

Where, for instance, the proprietorial nature of the management is predominant—where it is still mainly a family concern—the accountancy function is commonly under-developed, as the purpose to be served by the accountant is confined to the production of accounts of interest to a limited circle only.

As soon as the general public has acquired a shareholding interest in the undertaking, the type of accounts required and naturally the processes involved in their preparation represent an increase in detail, whilst the satisfaction of certain additional statutory requirements becomes obligatory.

When growth—apart from age—becomes an important factor, different demands on the accounting system make themselves known. The control of day to day production and selling activity becomes more and more impracticable without a regular and reliable service of information on what is taking place in the works and in the field. Hence the accounting organisation has to develop and expand on introspective lines in order to serve the professional manager instead of the erstwhile personally interested proprietor.

Two world wars and a world recession of trade have imposed abnormal strains on industry within the past half century, and out of the needs of management for improved tools for the control of business, and the improved techniques of the accounting profession, has arisen a type of man now being called the management accountant. His duties comprise the service of management through the medium of financial and accounting information in the form of historical reports, financial forecast and budgets for active control purposes. It is the organisation of a department headed by such a man which offers the most fruitful field for study by a body such as this having as its major interest that of the day to day administration of industrial undertakings.

It will be salutary to set down first of all the requirements of directors and managers which should be satisfied by the accounting organisation. These can be conveniently considered under three heads, viz:

(1) Services popularly adjudged as "routine";

(2) Needs generally unrecognised by Boards and managers or not fully realised;

(3) Potential aids to management.

1. *Routine Service*

(a) The provision of periodical accounts in statutory form in accordance with the provisions of the Companies Act, 1948.

(b) Financial reports for the information of the directors on the current trading results of the undertaking at each Board meeting.

(c) Reports on the fixed and liquid capital position at regular intervals.

2. *Needs generally unrecognised or not fully realised*

(a) Capital Expenditure forecasts for short and long-term plans.

(b) Cash and other fluid capital forecasts.

(c) Trading account forecasts.

(d) Reports on the incidence of taxation including forecasts.

Reports based on comparison of actual results with forecasts in each case.

3. *Potential aids to Management*

(a) Budgetary control of departmental production and services.

(b) Standard costing.

(c) Control of capital usage, including credits, stocks, work-in-progress, etc.

(d) Moving annual total comparisons.

(e) Statistical control of sales and distribution costs.

It may be assumed that the organisation of the accounts department will be planned to fulfil all the requirements set out above although, according to the stage of development of the business itself, the Board of directors may not necessarily agree with the full range of service which has been envisaged.

At this stage, even so, it is necessary to make quite clear that the accounting department organisation must follow the structure of the undertaking. Accounting is the

ervant and not the master in industry, nd this cannot be too strongly stressed. Much of the hostility—latent and active—hown by technicians towards accountants s well as that voiced by outsiders not too ell qualified to judge) derives from an mpression often unwittingly but too often ustifiably conveyed by the accountancy rofession that industry should conform to he pattern set by orthodox accounting rocedure. The reverse is, of course, the ase. The only justification for accounting rocedures, other than those necessary for he provision of the statutory accounts, ill be the service they can render to pro-uctive efficiency and the organisation of he undertaking as a whole.

Before embarking on any plan for the ccounting department it is essential, herefore, to examine and to set out clearly he principles on which the undertaking has een established as a manufacturing con-ern. On the axiom that the greater must ontain the lesser, a fairly complex structure ill be assumed in order to present an over-ll accounting plan which can be used as an xample on which systems suitable for other ndertakings can be planned, or with which xisting systems can be compared.

The undertaking to be used as a case udy is a composite company interested in everal fields in industry, producing and narketing a fairly wide range of products nd employing for this purpose several housand operatives and clerical workers.

Management of the undertaking becomes ffective through a blend of vertical and orizontal organisation. Ideally it would be referable for one principle only to be dopted, but on the assumption referred to arlier, that the duty of the accounting unction is to serve the company as it has eveloped, the case study is made of an rganisation which is typical of a com-romise which in practice will be found to xist in varying "mixes" in the vast ajority of medium and large scale pro-uctive undertakings.

In connection with the accompanying hart (Diagram A), it is appropriate to ake the comment that the business oncerned has evolved from a progressive olicy of development of the company's wn resources with a conservative but etermined embarkation on new projects nd an abandonment of old products when pportunities arose or when economic hanges have dictated. The resulting xpansion has been accompanied by an laboration of the organisation supporting he higher management.

As a result, it will be observed that the roduction departments are organised on vertical line, whereas the ancillary services lthough operating as vertical organisations ave been developed on a functional basis nvolving horizontal organisation.

Co-ordination of all management is effected through senior executives responsible for the secretarial, financial, office management and personnel functions, with general managers responsible for autonomous branches trading in the several fields into which the company's products fall, and under the chairmanship of a managing director.

The function of finance is in the hands of the chief accountant and the whole of the accounting procedures are organised under his control. From the management chart it will be gathered that the trading branches, though they differ in the type of accounting system required, are each provided with an accounting department which supplies a complete service to the general manager and other branch executives, the accountant being responsible to the general manager for discipline, but to the chief accountant for accounting matters.

Each ancillary service is organised under a manager who in turn is responsible to the general manager of services, and an accounting department provides and co-ordinates the accounts of the service departments under the control of the general manager. Again, the services accountant is responsible to the general manager for purposes of discipline although for purposes of accounting principles, procedure and systems he, like the accountants of trading branches, is controlled by the chief accountant.

In each of the trading branches and the service departments the full functions of the works accountant are carried out and the processes of budgetary control, the establishment and maintenance of systems of standard costing, stores control accountancy, etc., are instituted for the purpose of furnishing the general manager with the means of controlling day to day activities as well as the progress made on long-term programmes. (The long-term budget or plan is prepared for the purpose of fulfilling the policy of the Board of the company and is approved on this basis.)

The chief accountant's function consists of organising, co-ordinating and controlling the accounting activities of the branch and service accounting departments, and providing (in addition to the statutory accounts) reports and advice on the commercial aspects of the business for the guidance of the managing director and the Board of the company.

The compilation of the monthly finance reports becomes a relatively simple task by setting an over-all programme which is issued periodically to all the subsidiary accountants and is time-tabled in such a way as to permit of a progressive build up of the final Board report by the required date. By a simple device of colouring and diagonal division of rectangles the time-table becomes an effective progress chart (see Diagram C (not here in colour)). Compilation of the company financial report by the chief accountant thus provides a basis on which results can be periodically investigated by progressive stages so that within the compass of one week the whole of the accounting figures of the company are assembled and combined into a statistical summary supplied with explanatory comments wherever necessary. By the time the report is considered by the directors divergencies from budget forecasts have been highlighted and each general manager is able to raise for consideration any special points as well as to expound the practical aspects of the financial report on the activities of his own particular branch or service.

It is not the purpose of this paper to describe in complete detail the routine and system by which the accounts and their supporting schedules and reports are produced, but the following points are of importance as being necessary to permit of orderly, speedy and accurate compilation and summarisation, without which fully digested information could not be made available to directors in time to be of use in controlling business:

(a) All subsidiary accountants submit the same type of accounting statements, e.g.:

1. Monthly trading account,

2. Summary of results by products or sections,

3. Statistical summary of turnover and profits,

4. Overhead absorption,

5. Capital and special revenue expenditure;

(b) The departmental trading accounts and service operating accounts are prepared on a uniform basis laid down by the chief accountant, so that all analyses of expenditure are in identical form, thereby facilitating comparison and merging of accounts for income tax computation purposes;

(c) Uniformity of accounting procedure is maintained through the periodical issue by the chief accountant to all subsidiary accountants of "standing accounts instructions" which deal with the accounting aspect of any change in the organisation or any points which require specific and uniform treatment;

(d) An internal audit section is operated by the chief accountant which is designed to detect divergencies from agreed procedure in addition to carrying out special investigations according to the needs and circumstances of the moment;

(e) A central mechanised accounting service is maintained. This service comprises:

FUNCTIONS OF MANAGEMENT

DIAGRAM A

TYPICAL ORGANISATION CHART ILLUSTRATING FLOW OF AUTHORITY & MAIN LINES OF COLLABORATION FOR AN UNDERTAKING EMBODYING BRANCHES ENGAGED IN DIFFERING INDUSTRIES.

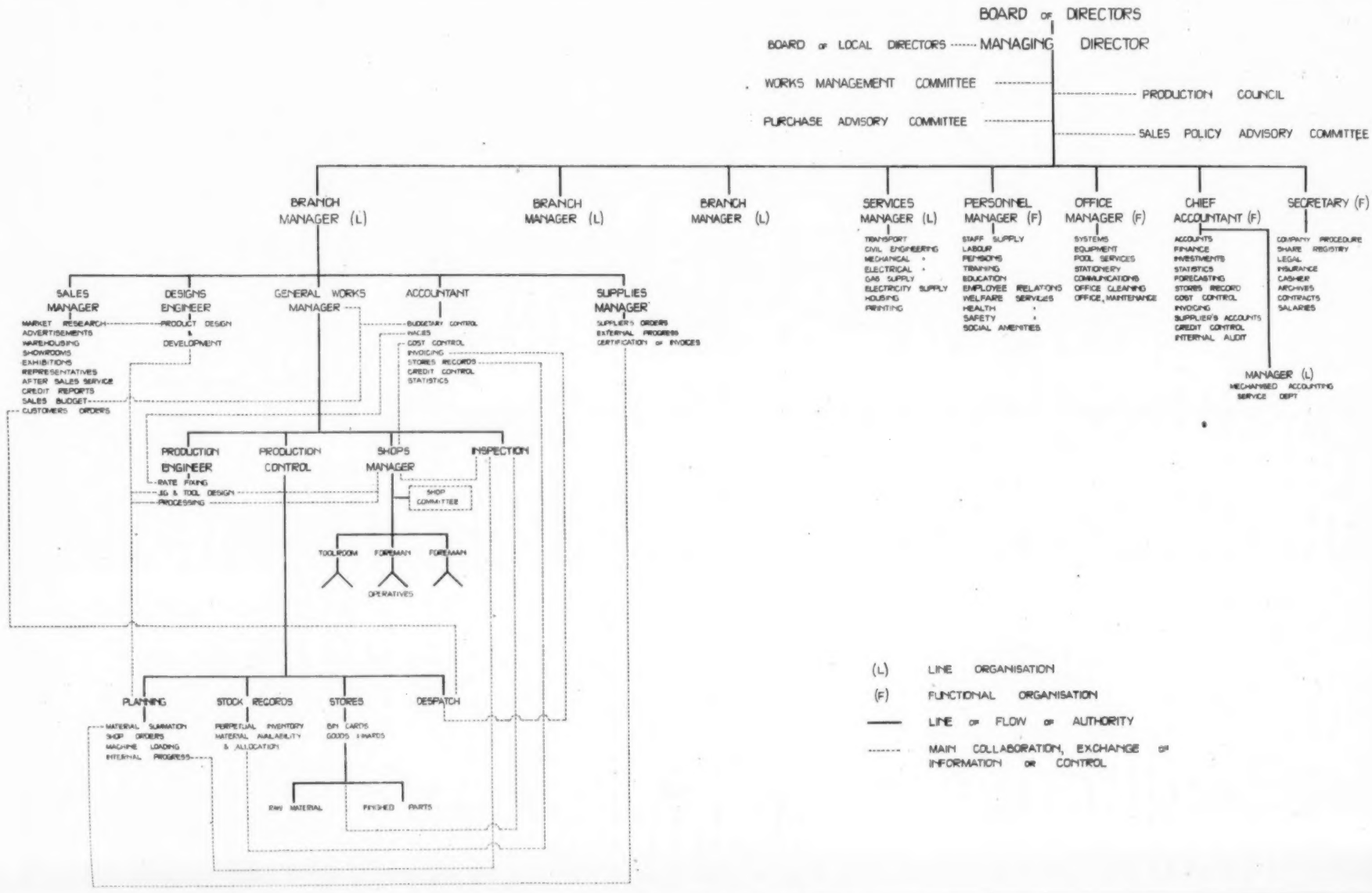
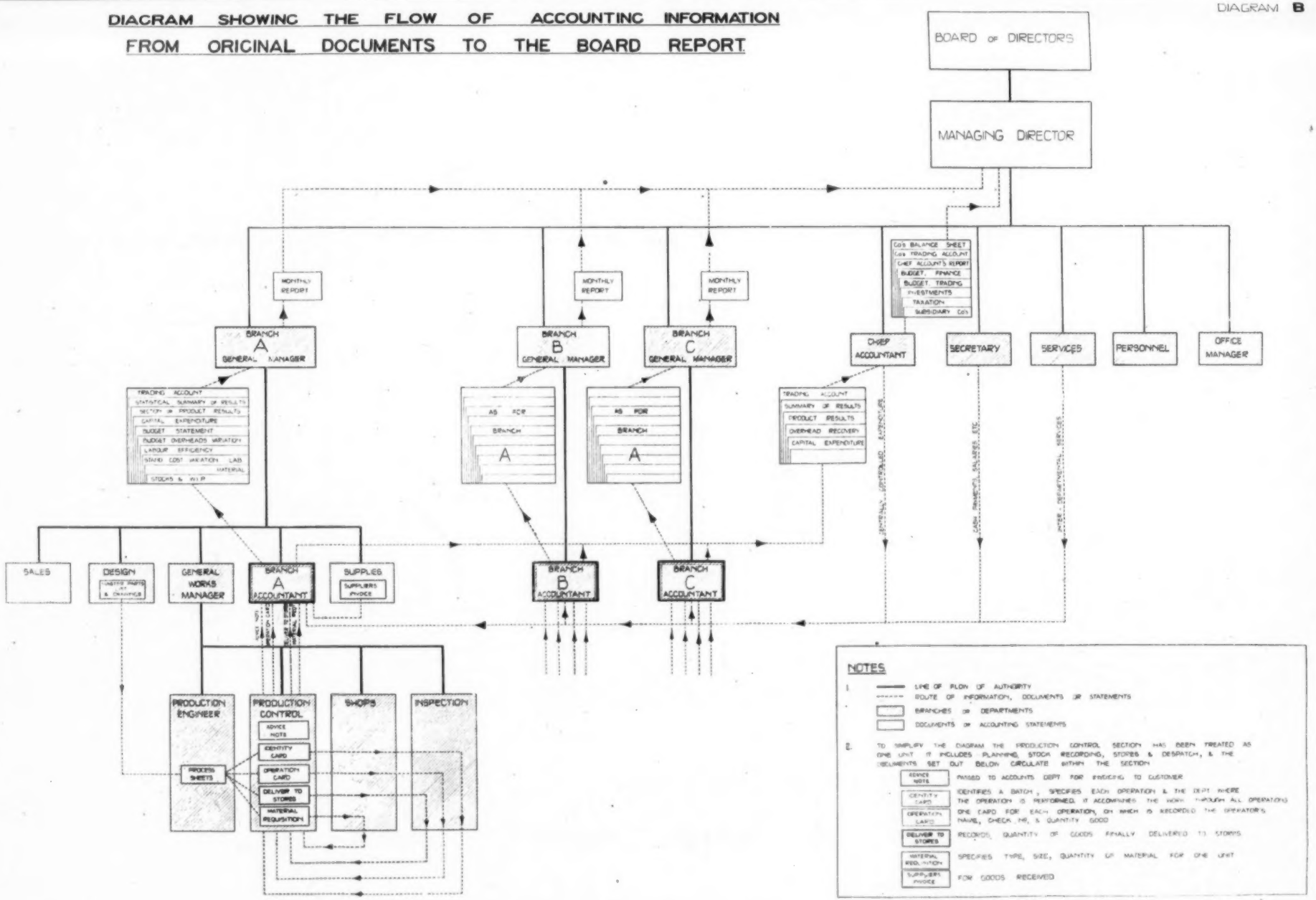


DIAGRAM SHOWING THE FLOW OF ACCOUNTING INFORMATION

DIAGRAM B

DIAGRAM B

DIAGRAM SHOWING THE FLOW OF ACCOUNTING INFORMATION FROM ORIGINAL DOCUMENTS TO THE BOARD REPORT



NOTES

1. LINE OF FLOW OF AUTHORITY
   ROUTE OF INFORMATION, DOCUMENTS OR STATEMENTS
   BRANCHES OR DEPARTMENTS
   DOCUMENTS OR ACCOUNTING STATEMENTS

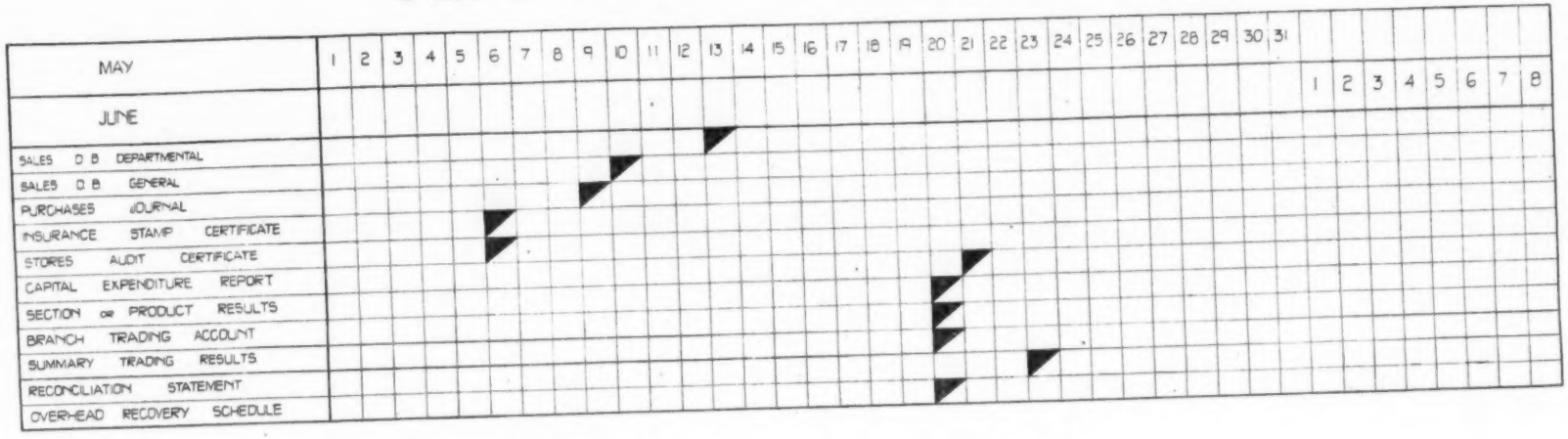
2. TO SIMPLIFY THE DIAGRAM THE PRODUCTION CONTROL SECTION HAS BEEN TREATED AS ONE UNIT IT INCLUDES PLANNING, STOCK RECORDING, STORES & DESPATCH, & THE DOCUMENTS SET OUT BELOW CIRCULATE WITHIN THE SECTION

ADVICE NOTE	PASSED TO ACCOUNTS DEPT FOR INVOICING TO CUSTOMER
IDENTITY CARD	IDENTIFIES A BATCH, SPECIFIES EACH OPERATION & THE DEPT WHERE THE OPERATION IS PERFORMED. IT ACCOMPANIES THE WORK THROUGH ALL OPERATIONS
OPERATION CARD	ONE CARD FOR EACH OPERATION, ON WHICH IS RECORDED THE OPERATOR'S NAME, CHECK NO. & QUANTITY GOOD
DELIVER TO STORES	RECORDS QUANTITY OF GOODS FINALLY DELIVERED TO STORES
MATERIAL REQUISITION	SPECIFIES TYPE, SIZE, QUANTITY OF MATERIAL FOR ONE UNIT
SUPPLIERS INVOICE	FOR GOODS RECEIVED

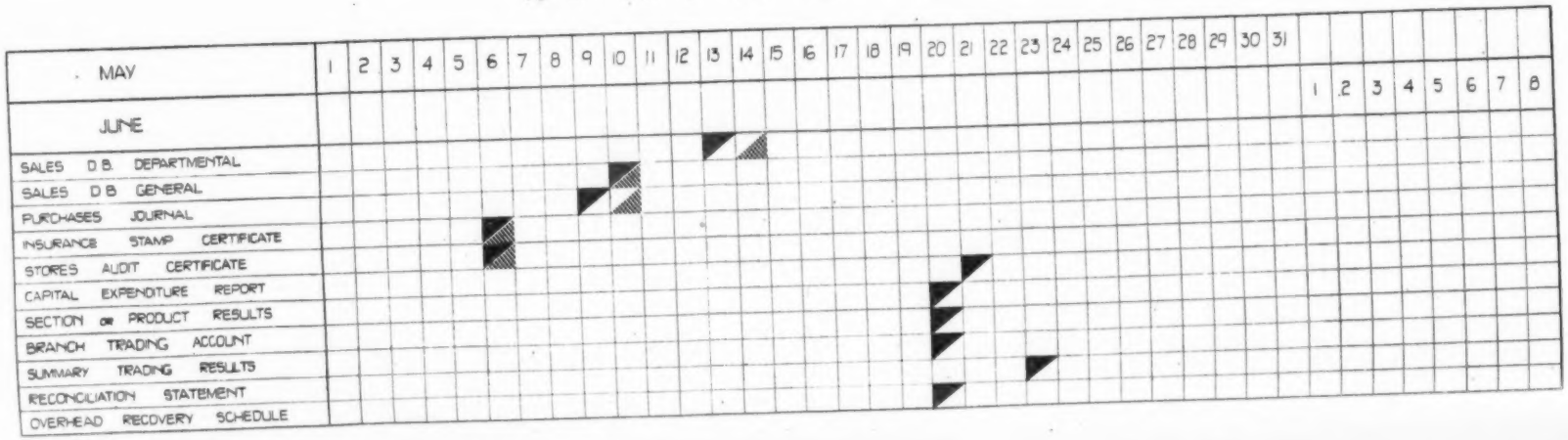
ACCOUNTS & CONTROL REPORTS TIME TABLE

BRANCH "A" ACCOUNTING PERIOD APRIL 1952

AS ISSUED TO THE BRANCH AT THE BEGINNING OF THE ACCOUNTING PERIOD



AS AT 15TH OF MAY 1952



1. Full range of addressing and plate embossing equipment,

2. Maintenance of plate library,

3. Calculating machines and operators,

4. Complete range of punched card equipment;

This service is organised and controlled by the chief accountant who is thus in a position to eliminate "bottle necks" by augmenting service and rearranging programmes and according "priorities" where necessary so that the flow of summarised information from original document to completed accounts is kept smoothly flowing at all times.

After completion of the accounting schedules needed for the examination of the trading branch results and service department operations, the company finance position is dealt with, and reports on investment income, headquarters expenditure and tax liabilities are produced. This represents the final stage in the performance of the chief accountant's routine function as at this point the following documents are compiled:

1. Balance sheet, analysed trading accounts and profit and loss account (including provisions for tax liabilities).

2. Finance.

(a) Bank position—forecast and actual,

(b) Capital expenditure—budget and actual,

(c) Fluid capital usage—stocks, work-in-progress, debtors, bills receivable,

(d) Credit usage—loans, creditors, bills payable,

(e) Revenue, doubtful debts.

The balance sheet, trading and profit and loss accounts are produced from balanced books of account. In this connection it should be said that the required date of completion of these vital documents will decide whether they can be completely accurate, or whether some margin of approximation must be allowed. The use of "control account" techniques and mechanised accounting equipment has very materially reduced the interval between the end of an accounting period and the date on which books can be balanced and accurate accounts provided, but there still remains an irreducible minimum interval if the excessive use of estimated figures in a balance sheet is to be avoided.

The nature and size of the business, the characteristics of the directors or proprietors and the extent to which decentralised control of production and trading is achieved will decide whether the number of days elapsing between the close of an accounting period and the review of the financial reports can be extended sufficiently to permit of actual instead of provisional figures being used by the accountant.

If the day to day control of each of the activities of a composite undertaking is supported by up-to-the-minute statistics and operating reports, it is pretty evident that no very useful purpose is served by introducing approximations into the balance sheet and profit and loss account merely in order to be in a position to bring forward the date of a Board meeting by a few days. If, on the other hand, the Board meets for the purpose of carrying out "executive" rather that "directive" functions the need for prompt reconsideration policies and action based on results and trends becomes sufficiently imperative to warrant the acceptance of a reasonable margin for approximation in preparing the monthly balance sheet.

Whichever set of circumstances dictates the programme for the company's monthly accounts the basic requirement of a streamlined organisation for the entire accounting function remains, and that organisation has to fulfil two major objectives if it purports to be effective:

(a) It must follow the lines of management organisation exactly.

(b) It must produce at each stage in the management structure the information of the kind needed and at the time required for the use of the individual responsible for management at that level.

It will be clear that the organisation of the accounting function of a business, the supervision of the procedures, and the operation of the techniques involved in the provision of the statutory and non-statutory accounting data necessary for the effective management of a business enterprise calls for a high degree of skill and extensive experience on the part of the responsible accountant.

These fundamental requirements do not, however, complete the qualification of an individual to rank and function as a management accountant. Personal attributes, most of which are intangible, must be possessed if management is to be adequately served at directorate level. It goes without saying that integrity in its widest sense is a *sine qua non*. Integrity not only in its relation to the custody of records and property, but in the honest presentation of facts and the proffering of disinterested advice, is of first importance. Strength of character is an essential because apart from the recurrent necessity to bring to the notice of management unpalatable truths the accountant must when occasion arises be possessed of the courage to oppose propositions which in his considered judgment are mistakenly conceived, no matter from where they originate.

Understanding of his fellow men and a comprehension of human frailties must be a part of his make-up, as in the course of his duties conflict between policies and personal interests will frequently prove to be the crux of the problems he has to face.

The selection and training of staff for the accounting department naturally forms part of the responsibilities of the management accountant. Here the service which should be performed for management is a vital one. The relationships between the accounting personnel and other employees of all grades and departments are extremely important, and on the principles and practice adopted for the education and replenishment of staff depends the efficient continuity of performance of the function.

A business such as that under consideration provides unrivalled opportunities for the enlistment of intelligent and progressive-minded juniors who can be trained in routine procedures and works accounting techniques by moving through offices concerned with all the different aspects of cost accountancy. Staff recruited under conditions such as these will make rapid progress as accountancy students, and perform high grade work as a result which will more than recompense for the wastage which is unavoidable when the rate at which junior staff qualify outruns the available promotion made possible by the rate of expansion of the business and the normal retirement turnover.

The quality of the management accountant and the excellence of the services he provides to the management of a business has few surer criteria than the records of the accountancy students in the department.

The ability not only to *form* his judgment but to *explain* complicated propositions coherently and in plain comprehensible terms is an inescapable essential, for without this quality the most talented and highly trained accountant will not only experience continual frustration but may in place of help provide positive hindrance to management. Thus, although the management accountant must be an individual possessed of high technical training and extensive practical experience these qualities must be super-imposed on a background of character which earns for him respect, and invites co-operation, and it is not too much to say that such an Admirable Crichton when found will perform a service to the conduct of an enterprise which, though equalled, is unlikely to be exceeded by any other of the functions of management.

Sound organisation of the accounting department is an essential factor in the efficient running of an undertaking but without the right personality to direct the accounting activities and to create and maintain the correct cordial relations at all levels of management neither the best interests of the business itself nor the community as a whole can be fully served.

Capital Allowances and Schedule E

CAPITAL ALLOWANCES UNDER SCHEDULE E in respect of machinery and plant are provided for by Section 302 of the Income Tax Act, 1952. Initial allowances under Section 279 and annual allowances under Section 280 can therefore be claimed in respect of any machinery and plant which has to be used in carrying out the duties of the office or employment. Balancing allowances and charges arise in the normal way.

The basis period is the year of assessment itself (Section 325(4)). The right to initial allowance therefore arises as soon as the capital expenditure is incurred (no initial allowances are claimable on expenditure between April 6, 1952, and April 14, 1953, both dates inclusive), irrespective of whether the asset is then in use, so long as it is intended for use for the purposes of the office or employment. Expenditure is deemed to be incurred on the date when the consideration becomes payable (Section 330(2)). It has been decided in *C.I.R.* v. *Guthrie* (1952, S.L.T. 376) that an initial allowance can be claimed on the deposit paid for a motor-car which was never delivered owing to the conduct of the persons who received the deposit.

The conditions for annual allowances are different ; the asset must have been in use for the purpose in question at the end of the basis period (Section 280). It does not matter whether or not the plant has been in use for the whole year of assessment ; so long as it was in use for the purpose in question on April 5—at the end of the year of assessment—the allowance for a full year must be given, even if the asset was only bought a few days before. The only exception is where the office or employment was commenced or ended in the year of assessment, when the year's allowance must be apportioned on a time basis so as to reduce it proportionately to the period the office, etc., was held in the year (Section 286). The full initial allowance is due irrespective of how long the office was held in the year.

What has been said above applies, of course, only to an asset used wholly for the purposes of the employment. If used partly for other purposes, both initial allowance (Section 279(3)) and annual allowances (Section 289) are adjusted so as to allow a "just and reasonable" proportion, having regard to the facts. Annual allowances are calculated in each year as if there had been no reduction of the initial allowance or of previous annual allowances, then the result is reduced as may be required. Any subsidies or allowances towards the cost of the asset or of its wear and tear must be brought into account to reduce the cost and the allowances as appropriate (Sections 279(4), 290), unless the said subsidies, etc., are assessable on the recipient as income (Section 330).

If an asset not previously used for the purposes of the office or employment begins to be so used, the annual allowances are calculated as if annual allowances (but not an initial allowance) had been written off ever since its acquisition by the taxpayer (Section 291).

A balancing charge cannot exceed the allowances actually granted (Section 292). For both balancing allowances and balancing charges, when the asset is sold or put out of use, or given away, or put to some other use, or the employment ceases, the asset is regarded as having realised its market value on the date of sale, etc., unless it has in fact realised more, or it was demolished or destroyed, in which event the insurance money or other compensation is regarded as the sale price (Sections 292, 333).

Neither a balancing charge nor a balancing allowance can be made unless there has been made an initial allowance or annual allowances (Section 292(1)).

A taxpayer can claim initial allowance without annual allowances, or vice versa. If at any future time he starts to claim annual allowances, these will be calculated as if he had always claimed them.

Should the capital allowances for any year exceed the income from the office or employment in respect of which they are claimed, the balance is carried forward and added to the next year's capital allowances.

The most common asset used by taxpayers assessable under Schedule E is the motor-car.

Illustration : A commercial traveller bought a motor-car on April 1, 1952, for use in his employment and started to use it at once. Previously he had used the employer's car. His employers paid all running expenses and repairs, but allowed nothing towards depreciation. The car cost £900. In the period to April 5, 1952, he did 300 miles, all on business. In 1952-53 he did 8,000 miles, of which 15 per cent. was agreed as private user. In 1953-54 he did 10,000 miles, of which 10 per cent. was private user. He sold the car to the trade on April 7, 1954, for £400, and bought another for £850.

His alternative claims are computed thus:

		(A) If initial allowance claimed £900	(B) If initial allowance not claimed £900
Cost			
1951-52. Initial allowance 40 per cent.	£360		
Annual allowance ¾ × 20 per cent.	225		
		585	225
		315	675
1952-53. Annual allowance		79	169
		236	506
1953-54. Annual allowance		59	126
		177	380
Proceeds of sale		400	400
Excess		£223	£20

It is provided by Section 279(3) that if the asset will be used for purposes other than the business, etc., only so much of the initial allowance is to be made as is just and reasonable. Nevertheless the full initial allowance is deducted in calculating future annual allowances (Section 289(2)). In regard to annual allowances, there is only a restriction for those years in the basis period for which there has been other use. There should therefore be no restriction in 1951-52 on that ground. Moreover, since he has been assessable on his employment for the whole year, he is entitled to the full year's annual allowance.

In this illustration, as it seemed that 15 per cent. would be private use, the initial allowance would be restricted by that proportion.

Amounts allowable	(A)	(B)
1951-52	85% of £360 = £306 225	£225
	£531	
1952-53	85% of £79 = £67	85% of £169 = £144
1953-54	90% of £59 = £53	90% of £126 = £113

A reasonable way of calculating the balancing charge (1954-55) is as follows :

Allces. granted $\frac{631}{723} \times £223 = £201$ $\frac{482}{520} \times £20 = £18$

Allces. written off

As an alternative to paying on the balancing charge and having allowances on the cost of the new car, the Acts allow the balancing charge to be deducted from the cost of the new car, in which event the allowances are calculated as if it had cost the net amount remaining. The balancing charge is then regarded as an initial allowance on the new car when it comes to a balancing charge or allowance on its sale (Section 296).

Thus under (A) above the computation for the new car would proceed :

If balancing charge *not* set-off		If balancing charge set-off	
Cost	£850	Cost	£850
		Less balancing charge	201
			649
1954-55 Initial allow.	£170		£130
Annual „	212		162
	382		292
	£468		£357

The allowances for 1954-55 where the balancing charge is not set off against the cost of the new car will be the allowable portion of the £382 (say 90 per cent.) but the balancing charge will be assessed, reducing the effective allowance to £344—£201=£143.

It should be noted that the actual balancing charge only is deducted where set-off is claimed. The £201 plus the allowable portion of the initial and annual allowances are regarded as having been allowed for the purposes of a balancing allowance or charge on the new car.

Taxation Notes

Failure to Déduct Tax

A FAILURE TO DEDUCT TAX AS A RESULT of a mistake of law cannot be remedied (unless the recipient cares to refund). A failure as a result of a mistake of fact can be remedied. In *Turvey* v. *Dentons (1923), Ltd.* (1953, 1 Q.B. 218—see ACCOUNTANCY, March 1953, page 90), the company, when paying rent for premises leased by them, deducted the tax paid under Schedule A. They did this in the belief that they had a short lease; the official who was responsible for paying the rent was under the belief that the lease was for only 10 years. In fact the lease was for 99 years, and on the company discovering that it was a long lease, they claimed to deduct tax on the whole rent at the standard rate. It was held that the overpayments of rent were made solely under a mistake of fact and were recoverable.

Partnership Changes

The Finance Act, 1953, provides that in all cases a change of ownership shall bring into operation the "stop and start" rules unless there is at least one partner continuing, in which event the "stop and start" rules can be obviated by a notice signed by all members of both the old and the new firms.

Should there be two changes of partners in the same year of assessment, or in successive years of assessment, and notice was given on the first change, but the stop rules apply to the second, it is now the rule that additional assessments shall be raised where relevant, on both the first and second partnerships, instead of, as under the *Osler* v. *Hall* rule hitherto applicable, on the second partnership only.

Some doubt has arisen about the full effect of Section 19(4) (*b*), which says:

> (*b*) if, after the change but before the end of the following year of assessment, there is a permanent discontinuance of the trade, profession or vocation (including a change treated as such) then on that discontinuance Section 130 of the Income Tax Act, 1952, shall apply, as respects any period before the first-mentioned change, to the persons charged or chargeable for that period as it would apply if no such change had taken place and they had been charged to tax accordingly for the subsequent period up to the discontinuance.

The Section 130 referred to is the Section which lays down the rules that the assessment for the year of cessation is to be based on the actual profits of that year, and that the Revenue are entitled to increase the assessment for the penultimate year of assessment to the actual profits of that year if they exceed the original assessment.

The doubt can be best expressed by an illustration:

A and B in partnership admit C as a partner on January 1, 1954. A dies on August 1, 1954. Notice given on first change under Section 19, for "non-stop" treatment. No notice given on second change. Accounts for calendar years.

Profits: 1951 £10,000
1952 12,000
1953 14,000
1954 18,000

(Fractions of months are ignored below).

Original assessments, after first change:

1953-54, £12,000, divided as to:
£9,000 to A and B and
£3,000 to A, B and C.
1954-55 £14,000 on A, B and C.

Amended assessments as result of second change:

1953-54 $\frac{3}{4} \times £14,000 + \frac{1}{4} \times £18,000 = £15,000$

1954-55 On A, B and C $\frac{4}{12} \times £18,000 = £6,000$
On B and C: On profits of 12 months to July 31, 1955.

The doubt is as to the division of the 1953-54 amended assessment. If there had been no change, the assessment of £15,000 would be divided as the partners divided profits in 1953-54. Does that mean that $\frac{3}{4} \times £15,000 = £11,250$ is the share of A and B and $\frac{1}{4} \times £15,000 = £3,750$ that of A, B and C? That would be inequitable.

The real interpretation, which we understand is accepted by the Revenue, seems to be that:

(1) Section 19(4)(*b*), Finance Act, 1953, relates only to the application of Section 130, Income Tax Act, 1952, "as respects any period before the first-mentioned change, to the persons charged or chargeable for that period." Notwithstanding the concluding words of Section 19(4) (*b*), that sub-paragraph accordingly brings Section 130(1) (*b*) into play only as respects any excess of the profits of the period before the first-mentioned change over the

amount assessed on the persons chargeable for that period.

(2) For the remainder of the income tax year in which the first-mentioned change occurs Section 130(1) (*b*) continues to apply as hitherto, i.e. apart from Section 19(4) (*b*). An additional assessment may accordingly also be made under Section 130 (1)(*b*) in respect of any excess of the profits of the period after the change over the amount assessed on the persons chargeable for that period.

The new assessment for 1953-54 would therefore be divisible:

A and B $\frac{3}{4} \times £14,000 = £10,500$, giving an additional assessment of £1,500.

A, B and C $\frac{1}{4} \times £18,000 = £4,500$, giving an additional assessment of £1,500.

It is worth emphasising that *Osler* v. *Hall* still applies to 1952-53 where there have been changes in that and the following year.

Withdrawal of Estate Duty Concession

The Commissioners of Inland Revenue give notice that Regulation 1 of the Defence (Finance) Regulations, 1939, having been revoked as from August 5, 1953, the concession set out at paragraph 2 (i) on pages 18 and 19 of Cmd. 6559 of 1944, and in the Appendix to the Report of the Commissioners for the year ended March 31, 1951, relating to moneys and investments representing requisitioned balances and securities situate abroad is withdrawn in relation to deaths occurring after February 5, 1954. The concession was stated as follows in the Appendix to the Report referred to :

> Property situate abroad of a person who dies domiciled abroad is in general not liable to estate duty. Consideration moneys received in respect of balances and securities abroad which have been requisitioned by the Government under the Defence (Finance) Regulations, or investments earmarked as representing such consideration moneys, are regarded as situate abroad where the person dies domiciled abroad and the death on which those moneys or investments pass occurs not later than six months after the expiry of the Regulations.

Regulation 1 of the Defence (Finance) Regulations, 1939, empowered the Treasury to acquire compulsorily and with compensation money balances and securities with a market value outside the United Kingdom. If the owner of foreign assets had died domiciled abroad, no estate duty would have been payable on them, but in the absence of some concessionary treatment the compensation proceeds of foreign assets compulsorily acquired under the Regulation would normally be in the United Kingdom and would attract duty. To avoid this anomaly, the Inland Revenue concession was introduced. But Regulation 1 was recently revoked and therefore the concession is now withdrawn.

Estate Duty—Marginal Relief

It is well known that where the total value of the property liable to estate duty on a death is only a moderate amount above one of the steps in the scale of rates of duty, a marginal relief is given. In effect, the excess over the step is surrendered as duty, and the maximum duty at the next lower rate, plus such excess, becomes the duty payable.

Illustration

	£
Net estate	20,500
Scale duty 15 per cent.	3,075
Marginal relief:	
Duty at 12 per cent. on £20,000	2,400
Add excess of estate over £20,000	500
Duty limited to	£2,900

It is not always realised, however, how big the margins are today. Even at the beginning of the scale, the margin is £2,020 4s. 1d., as 1 per cent. thereon equals £20 4s. 1d.

Below are specimen margins.

Wherever marginal relief would benefit the estate, it is applied, even where some of the property is not bearing duty immediately, as in the case of an interest in expectancy, or where there are other factors.

Illustration

Estate of £210,000, including agricultural value of £100,000.

On the general scale, marginal relief applies, on the agricultural value it does not.

Duty payable:	£
55 per cent. on £200,000	110,000
Add margin	10,000
	£120,000

Proportion applicable to non-agricultural value:
$\frac{110,000}{210,000} \times £120,000 = £62,857$ 2s. 10d.
(instead of 60 per cent. on £110,000 = £66,000)
Agricultural value 33 per cent. on £100,000 £33,000

There is no marginal relief in respect of the aggregation of a free estate not exceeding £2,000 and settled property; if the free estate exceeds £2,000, it is aggregable.

Estate over (£)	But not exceeding (£)	Rate (per cent.)	General Scale Margin £ s. d.	Rate (per cent.)	Agricultural Scale* Margin £ s. d.
15,000	17,500	10	15,333 6 8	5·5	15,174 12 1
30,000	35,000	21	31,139 4 10	11·55	30,559 12 10
60,000	75,000	40	65,000 0 0	22	62,115 7 9
200,000	300,000	60	225,000 0 0	33	208,208 19 2
750,000	1,000,000	75	900,000 0 0	41.25	785,106 7 8
Over £1,000,000		80	1,250,000 0 0	44	1,049,107 2 11

* Where the agricultural value of land is concerned, the rate of duty is decreased to 55 per cent. of the normal rate with a corresponding alteration in the margins.

Estate Duty and the Family Business

A memorandum with this title has been submitted by the Federation of British Industries to the Chancellor of the Exchequer. During the debates on this year's Finance Bill, the Chancellor announced that an inquiry would be held on the question of estate duty with particular reference to the effect on holdings in certain types of private companies. The memorandum is based on the experience of F.B.I. members. It is the Federation's conviction that the liability to estate duty on holdings in certain types of private companies is excessive and damaging to the national economy.

There are one or two statements in the memorandum which are a little unfortunate. Firstly, on pages 2 and 9 it is stated that *inter alia* control applies where the deceased had a beneficial interest in more than half

the issued shares and debentures, whereas according to the Act a half-share gives control, so that two equal shareholders would each control the company for the purposes of Section 55 of the Finance Act, 1940. Secondly, there are several references to the adoption of "break-up value." If, in fact, Section 55 required "break-up value" to be taken, then there would be fewer complaints about it. Section 55 requires a valuation at market value, which is regarded as being a going concern market value, and not "break-up."

A point that seems to be generally overlooked in all such memoranda is that controlled companies are regarded as being in the same category as partnerships so far as estate duty is concerned. Alleviation of estate duty is necessary not only for private companies but for partnerships also.

The recommendations of the Federation include reduction of the severe rates of duty and alteration of the scale now imposed; the introduction of an appeal body to which the executors could refer disputes on valuation; and the suggestion that probate should be granted on lodging the estate duty account without insisting on the prior payment of estate duty. The main purpose of the memorandum, however, is to urge the amendment of rules and practice of valuation prescribed by Section 55, the narrowing of the scope of Sections 46 to 54 and the provision to executors of extended time within which payment of the duty can be made. It is apparent from the memorandum that experience is difficult to collate: the writer of this note has had a very different experience from that set out in certain paragraphs of the recommendations, particularly that in which it is suggested that the statement made by the Economic Secretary of the Treasury in the House of Commons on June 22, 1953, regarding "negative goodwill" is not adopted by the Estate Duty Office. (The Economic Secretary then said: "If it can be shown that the valuation reached by the valuation of assets puts a greater value on the total shares of the company than is justified by the earnings record and profits prospects of that company, then allowance is made by the Estate Duty Office for what is called negative goodwill.")

We agree wholeheartedly with the memorandum when it says that it should not be left to the experience and indeed in some cases the stubbornness of the negotiators to obtain agreement to reasonable valuations.

Profits Tax

The second supplement to the official loose leaf volume of the Acts relating to profits tax has now been issued. (H.M. Stationery Office). This includes the appropriate Sections of the Income Tax Act, 1952 and of the Finance Act, 1952 with amendments to the previous cross-references and other notes contained in the main volume. An up-to-date list of the Orders in Council in force under Section 347 of the Income Tax Act, 1952, giving the relief for double taxation, is also included, with a revised index.

Life Assurance Relief

While it is common knowledge that the life assurance premium allowable on any policy cannot exceed 7 per cent. of the sum assured payable at death (without bonuses), it is often overlooked that this limitation does not apply where the total premiums payable by the taxpayer on all his policies effected after June 22, 1916, do not exceed £25 in the year. In that event, the relief is on £10 or the actual premiums if less than £10. The 7 per cent. rate applies to all policies taken out on or before June 22, 1916.

Notes on the Treatment of Profits Tax in Accounts

The Council of the Institute of Chartered Accountants in England and Wales has issued a booklet under the above title. The notes deal with the nature of profits tax and the difficulties that arise in connection with distribution charges.

The first problem is as to the disclosure in the profit and loss account of the non-distribution relief or amounts attributable to distributions. The second problem is whether any disclosure should be made in the balance sheet regarding the possibility of distribution charges being incurred. The third problem is the ascertainment of the amount involved; this is not made easier by the fact that the amount involved on a liquidation basis may differ from that involved on a going concern basis. All these problems are discussed and the following conclusions on non-distribution relief reached:

> (*a*) In normal circumstances any attempt to estimate the amount of the profits tax liability which might be incurred on a hypothetical future distribution cannot produce any result of sufficient accuracy to be of value or significance.
>
> (*b*) It is not normally necessary in law for a balance sheet to refer to the existence of an accumulated amount of non-distribution relief.
>
> (*c*) The Council considers it may be helpful to shareholders to remind them that if any of the reserves were distributed, a part would normally have to be paid away in profits tax.

The Council therefore considers there is much to commend the practice of making the balance sheet as informative as possible by including an appropriate reference to the existence of an accumulated amount of non-distribution relief. If the accumulated amount is stated, care must be taken to ensure that it is not misleading, having regard to the relationship between that amount and the reserves shown in the balance sheet. If the reference is in general terms, the following is an example of wording that may be suitable:

> The company has been given profits tax non-distribution relief and accordingly a profits tax charge would normally be incurred in the event of a distribution to shareholders out of reserves, including the balance on profit and loss account.

Exceptional circumstances such as contemplated liquidation would require special treatment.

The difficulty of the whole matter is emphasised when we find that the notes have been submitted to five counsel, of whom three are of opinion that the notes are correct in so far as they deal with matters of law but the other two disagree with that opinion because, although in their opinion the existence of an accumulated amount of non-distribution relief does not constitute either a liability or a contingent

liability at the balance sheet date, nevertheless, they consider that if the balance sheet is to give a true and fair view of the state of affairs of the company as at the end of its financial year, the balance sheet should indicate the accumulated amount of such relief. The conclusions of the Council are in accord with the majority views of counsel.

As *The Times* said: "Let no one blame the Council of the Institute, but blame instead the hideous complexities and anomalies of profits tax itself."

Estate Duty Representations

Further representations on the question of Estate Duty have been made by the Engineering Industries Association. Like the Federation of British Industries, this Association had made previous representations at various times and in the latest memorandum they endeavour, as far as possible, to avoid repetition. They point out that the Finance Act, 1940, was passed during a national emergency which prevented a detailed examination, and that many of its implications were not properly realised for some years. The position has been greatly aggravated by subsequent developments, such as the tremendous increase in the rates of duty and the introduction of profits tax on distributions, which has an indirect but important bearing on the estate duty problem. The legislation appeared to have special application for companies formed to take over large landed estates, but has been applied to large manufacturing companies, causing hardship. The memorandum refers to Section 55 as appearing to denote something akin to a value on liquidation. This view is contradicted by the official statement referred to above in the note on the F.B.I. memorandum and we do not think it can be said that the 1940 legislation had in mind arriving at a figure equal to what would be expected on liquidation of the company. It is well known that break-up values on liquidation are (commonly) very much less than the real market value of assets, owing to a forced sale.

The memorandum considers four different bases of valuation of shares in a private company:

(1) The assets basis under Section 55.

(2) A valuation on the probable net realisation value of the assets on liquidation.

(3) A valuation related to the earnings yield.

(4) A method of valuation based upon reasonable dividend policy after taking all circumstances into account.

Everyone would agree with the Association that the last is the most equitable basis.

The Association suggests that while it may be desirable to retain the safeguarding provisions of Section 55 and its associated legislation, the basis of valuation should be modified so as to be taken by reference to the valuation of the assets as at present laid down or at the valuation in the open market determined by reference to the yield (actual or notional), whichever is the less. The Association feel that some alleviation of the incidence of estate duty is essential, particularly in regard to small companies and family businesses. It is also suggested that the anomalies caused by the present marginal relief system should be partially overcome by making the duty payable at the lower rate on the limit to which that rate applies and duty at the higher rate on the balance of the estate, e.g. a £64,000 estate would be charged as to £60,000 at 35 per cent. and as to £4,000 at 40 per cent. Under the present system, of course, it would be £60,000 at 35 per cent. and £4,000 at 100 per cent.

Woodlands

Enquiries have been received from readers regarding the note in the November issue and the following further notes are given to deal with these.

It must be emphasised that where accounts are accepted on a cash basis, changes in the value of growing trees are ignored. Where an occupier who has given notice for assessment under Schedule D transfers his ownership to a company, it would seem that Section 143 of the Income Tax Act, 1952, would not affect the position, provided the transfer was for valuable consideration, since the company intends to carry on a trade and the cost could be deducted by the purchaser as an expense in computing the profits or gains of that trade. It seems clear from Section 125 that woodlands managed on a commercial basis constitute a trade even where there has been no election to transfer to Schedule D. Has any reader had experience of this?

One of the questions asked by readers was whether shareholders would have to pay estate duty on the value of their shares, notwithstanding that the assets comprised for the most part uncut timber. The answer to this appears to be "Yes", just as in the case of the agricultural value of land, for which no deduction is given in valuing shares.

Another point raised was whether the woodlands could at any time be re-transferred to the first-mentioned occupier. So long as the transactions were real and carried out in proper manner, there seems to be no reason why such a re-transfer could not take place. Whether or not this would bring back into force the original election is open to question, in view of the wording of Section 125(4).

Building Society Interest and Repayment Claims

The law is that building society interest received is available to account for annual payments; this has the result shown by the following illustration:

			Tax
Profits assessed Case I		£200	—
Dividends		160	£72 0 0
House (net annual value)		36	
Bank interest ..		14	
Building society interest	£50		
Less ground rent ..	10		
		40	
		450	
Age relief, ⅜ths	£100		
Personal ..	210	310	
		140	
Deduct building society interest		40	
		100 @ 2/6	12 10 0
Tax repayable ..			£59 10 0

The other £10 of building society interest is regarded as covering the annual payment.

THE CASE OF THE SATISFIED SALESMEN

Marmite, in its handy wide-topped jar, is now a familiar sight in grocers' shops—and in kitchens—up and down the country. The Marmite salesmen mightn't have done such a fine job without efficient backing from headquarters . . .

Customers could never complain of a bottleneck (nor could the head office!)

AT THE WAR'S END, the Marmite Food Extract Co. Ltd. were faced with a problem—and an opportunity. For years, supplies of Marmite had been far below demand. Raw materials were short, and most of the output went to the Armed Services. Then the situation changed. It was time for aggressive selling. The sales-force was ready; new territories could be opened up; new demand could be created and *satisfied.*

But, in support of this sales campaign, could the office departments cope with the great volume of figuring work involved? To plan its production in advance, the company realized that it must have detailed statistics on the selling operation—sales analyses by travellers, by areas, and by class of outlet, would have to be prepared *day by day.*

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Result: So smoothly and quickly do these Burroughs machines serve the company's offices that a fact-and-figure picture of the whole sales operation is always on hand. Details of sales in any kind of shop in any county can be produced at a moment's notice—a great help to the company in planning production and distribution in advance.

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For expert advice on business figuring

CALL IN Burroughs

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT.

INCOME TAX

Trade—Company incorporated in 1918—Acquisition of properties from firm of speculative builders—Firm dormant since 1909—Promoters of company the firm whose families became and remained majority shareholders—Whether these facts relevant to the question whether sales of some of the properties were made in the course of a trade carried on by the company.

Glasgow Heritable Trust Ltd. *v.* C.I.R. (Court of Session, July 22, 1953, T.R. 303) was noted in our issue of April last at page 121. The appellant company had been incorporated in 1918, the promoters being a firm of specialist builders which had been dormant since 1909. The families of the said builders had become and remained its majority proprietors. To the company were transferred forty-six tenements which were stock-in-trade in the hands of the firm. Some of the tenement flats had been sold at a profit; and the appeals had been against assessments under Case I of Schedule D, it being claimed by the company that it had only realised capital assets. The Special Commissioners had made the strange finding that the formation of the company to take over the properties from the firm had "made no difference to the character of the operations" and had decided in favour of the Crown. On appeal, a unanimous Court of Session had remitted the case to the Special Commissioners in view of the obvious fallacy that if profits from operations by A.B. under given conditions were taxable they must also be taxable if performed by C.D. under other conditions; and they had been required to find whether the transactions under review were in the course of a trade carried on by the company. The result of the remit was, however, again found unacceptable by a unanimous Court.

The Lord President (Lord Cooper), who as before gave the only judgment, said that from the many decisions it was not easy to find any precise dividing line between trading and capital transactions. It tended to be a matter of degree and in each case depended very largely on the impression created by the facts and circumstances and it was very difficult to displace the determination of the Commissioners. The case did not depend upon the occupations by relatives of the present shareholders a generation ago but upon what the company professed to do and actually did. The historical approach, he said, was not legitimate for the purpose indicated in the stated Case and the Special Commissioners now told them—quoting their own words—"they had in mind the change of ownership" and that: "the balance was not tilted against the appellants" by the fact that if matters had been conducted differently tax liability would have been incurred by the partnership. If so, his lordship asked, what was the relevance of the criticised passage? He then analysed the facts of he case and, in effect, expressed the Court's opinion. The company, he said, had taken over 46 properties each subject to a bond, the aggregate being £100,000. This debt could only be paid off by realisations: but, although whole tenements could not be sold, sales had been made of single flats, each sale reducing the security and requiring a fresh bargain. After 1937, the outstanding bonds had been consolidated into a single bond for £70,000 of which £23,500 was still outstanding. No profits from sales had been distributed and no entry made in the profit and loss account. Upon these facts he held that:

> Until at any rate the whole of the heritable debt was paid off, the proceeds of the successive sales . . . properly fell to be treated as receipts on capital account and not as profits . . . the tenements were capital assets in the hands of the company to be held as investments or fractionally realised as circumstances might dictate.

and he pointed out that these assets in so far as not realised had been held as revenue-saving investments for over 35 years. As, however, appeal was useless unless the Commissioners had gone wrong in law, the case was again remitted to the Commissioners to state to what effect and for what purpose they attached relevance to the history of the tenements and to the families' holdings of the majority interest in the company. They were also to add such further explanations as they thought fit as to the grounds of their decision.

The Court's view on the accountancy of the transactions would seem to be of greater importance than the unfortunate position of the Special Commissioners. The proceeds of sale would be relevant to tax liability only if they arose from trade and, upon this hypothesis, in the event of a large accumulated surplus, the profits for the year in which the last of the debt on the properties was finally discharged—if it ever was discharged—could scarcely be deemed to be the whole accumulation. Lord Cooper considered the facts of the case to be highly special; but, whilst apart from the historical facts this may be true of Scotland, in England purchases with borrowed money by private companies of large blocks of flats and similar partial realisations and repayments have been common of recent years. In the accounts of such companies the method of dealing with sales and repayments has been in many cases that approved in the present case; and assuming the existence of trading the decision of the Court will scarcely help in the solution of a very intractable problem.

INCOME TAX AND SPECIAL CONTRIBUTION

Annual payment to trustee of charity under will—Contingent on performance of duties as trustee—Whether remuneration "earned" or investment income—Income Tax Act, 1918, Section 14(3), Schedule D, Case III, Charging Rule 1(a), General Rules 19, 21—Finance Act, 1920, Section 33—Finance Act, 1922, Section 18—Finance Act, 1948, Sections 47, 49, 68(2).

Dale *v.* C.I.R. (House of Lords, July 20, 1953, T.R. 269) was noted in our issues of October, 1951, at page 390 and October, 1952, at page 345. The question was whether the remuneration payable to the appellant as a trustee of "The Wellcome Foundation," a charitable trust established by the will of the late Sir Henry Wellcome, by virtue of the terms of the will and under an order of the Chancery Division but contingent on the performance of onerous services, was "earned" or "investment" income, the answer determining whether or not there was liability to the Special Contribution levied by the Finance Act, 1948, on investment income. There were, however, other and far more important issues involved. The Special Commissioners, in view of earlier Court decisions had felt bound to hold that the source of the payments was a bequest or gift of an annuity by the testator and that it was not an office of profit held by Sir Henry Dale and so within the definition of "earned income" contained in Section 14(3) of Income Tax Act, 1918. In the Chancery Division, Harman, J., had reversed their decision in view of *A.G.* v. *Eyres* (1909, 1 K.B. 723), where Channell, J., had held that a trustee was "the holder of an office," namely that of trustee under a settlement. A unanimous Court of Appeal had restored the decision of the Special Commissioners, Evershed, M.R., giving the only full judgment although Romer, L.J., as pointed out in the writer's note, had remarked on the artificiality of the legal position whereby the remuneration of a trustee for his services had been held to be

wholly bounty. The essence of the Master of the Rolls' judgment was that income to be " earned " within Section 14(3) must arise either as " remuneration from any office or employment of profit " or from " property which is attached to or forms part of the emoluments of any office or employment of profit " and, inasmuch as it was a settled principle that a trustee " can never derive any profit or advantage for himself out of his trust " the remuneration of Sir Henry Dale arose not from the office of trustee but from the bounty of the testator. In this connection, he referred to and analysed the principle established in *Baxendale* v. *Murphy* (1924, 3 A.T.C. 518; 9 T.C. 76), where Rowlatt, J., had held that in parallel circumstances a direct assessment on the trustee was not feasible. The Master of the Rolls had also said that he was not satisfied that the remuneration in question arose from " property " within the meaning of the section.

In the House of Lords the Harman judgment was restored, there being unanimity that the reasoning of the Court of Appeal was defective. As regards the non-profit aspect of trusteeship, Lord Normand in the leading speech said:

> The rule is the same for all; it is not that reward for services is repugnant to the fiduciary duty but that he who has the duty shall not take any secret remuneration or any financial benefit not authorised by the law, or by his contract, or by the trust deed under which he acts, as the case may be. In England, moreover, the Court has power to order payments to be made to trustees for whom the truster has made no such provision, a power which it is difficult to reconcile with a general principle that remuneration is repugnant to trusteeship.

In the course of his judgment, the Master of the Rolls, referring to the principle to be deduced from certain cases named by him, had declared that remuneration payable to a trustee was upon the same footing as the bounty conferred on other beneficiaries of the trust, being distinguished only by the acceptance of obligations. As to this, Lord Normand said:

> I think there is confusion here between the source of the payment, which is the testator's bounty as expressed in his will, and the quality of the payment as earned or not earned. . . . The source of the sum and its character as a receipt in the hands of the trustee are two separate and unconnected things.

It was not disputed that a trustee was " the holder of an office " and upon the point whether it was " an office of profit," Lord Normand declared:

> The phrase is not a term of art, and there is again no context which prevents it from being understood in its ordinary sense. To my mind, a remunerated office is an office of profit.

His conclusion was that the opening words of Section 14(3) clearly and unambiguously applied to the income in question; and both he and his brethren agreed that the argument of the Crown that they should not disturb a long-established practice enuring generally to the advantage of trustees could only have influenced their decision had there been ambiguity. This finding in the House of Lords was similar to that suggested respectfully by the present writer in his previous note. Their lordships did not find it necessary to decide whether their decision would make the remuneration of a trustee directly assessable or preclude the application of Rule 19. As regards the former, any assessment would presumably be under Schedule E. In *Great Western Railway Co.* v. *Baker* (1920-22, 8 T.C. 231; (1922) 2 A.C. 1), the House of Lords had held that only " public " offices were within Schedule E, with the result that in 1922 " employments " hitherto charged under Schedule D were transferred to Schedule E. The position of trustee under a will or deed is however, not a " public " office, neither, as pointed out in the course of the present case, is it an " employment," there being no employer. In fact, there would seem to be no place in Schedule E for a paid trustee. The alternatives might be direct assessment under Case III of Schedule D or the continued application of Rule 19; but consideration of these possibilities would be out of place here.

Excess rent under short lease—First payment of rent due on first day of fiscal year—Whether lessor entitled to rent during preceding year—Income Tax Act, 1918, Schedule D, Case VI, Rule 2—Finance Act, 1940, Sections 15, 16—Finance Act, 1948, Section 47.

Strick *v.* **Longsdon** (Ch. July 15, 1953, T.R. 293) involved, as Vaisey, J., remarked, a strange point. The respondent, Captain Longsdon, leased a farm in Norfolk on December 13, 1947, to a tenant at a rent of £675 payable half-yearly on April 6 (Old Lady Day) and October 11 (Old Michaelmas Day) in every year, the first payment to be made on April 6, 1948. No rent was receivable during the tax year 1947-48 but the Revenue claimed that the accruing rent for the half-year less one day to April 5, 1948, was caught by Section 15 of the Finance Act, 1940, which refers to the case of an immediate lessor of a unit of assessment who

> is entitled in respect of the unit to any rent payable under a lease or leases to which this section applies.

and the whole point of the case arose out of the omission of words making the charge to be on " rent arising," " rent received " or " rent receivable." For the respondent it was contended that for the purposes of Rule 1 of the Miscellaneous Rules of Schedule D, Income Tax Act, 1918, he did not in 1947-48 receive, nor was he entitled to, the income sought to be charged and, further, that as tax was to be charged under Case VI of Schedule D, Rule 2 of that case applied which restricted the charge to income " arising." The Crown's reply was that the excess rents provisions of Finance Act, 1940, were a self-contained piece of legislation and that the various incidents which apply to the ordinary case under Schedule D had no relevance. Vaisey, J., holding that Section 15 was to be construed as a Section by itself, reversed the decision of the Commissioners in favour of the respondent, with the result that in addition to liability under Case VI for 1947-48 there would also be liability to the Special Contribution.

It would seem that the wording of Section 15 upon which the case depended was deliberate. The charge was intended as a supplement to the existing unrevised assessments on annual value under Schedule A. This annual value is, save in special cases, based not on actual receipts, but on what property is either let at or worth to be let.

STAMP DUTY

Surrenders of life interests—Whether liable to stamp duties as conveyances or transfers on sale—Whether voluntary dispositions inter vivos*—Stamp Act, 1891, Sections 13, 54—Finance (1909-10) Act, 1910, Section 74.*

Platt's Trustees *v.* **C.I.R.** (Ch. July 10, 1953, T.R. 289) was a case stated by the Commissioners of Inland Revenue under Section 13 of the Stamp Act, 1891, and was an appeal by certain individuals against a decision by the Commissioners as to the duty payable in respect of certain deeds. By them, certain life interests given to the testator's children were released or surrendered, with the consequence that substantial benefits were conferred on the children's issue. Vaisey, J., upheld the conclusion of the Commissioners of Inland Revenue that, by virtue of Section 54 of the Stamp Act, 1891, and the Schedule thereto as applied by Section 74 of Finance (1909-10) Act, 1910, the deeds were liable to duty as conveyances or transfers operating as voluntary dispositions *inter vivos* within the meaning of the latter Section and so assessable in each case on the value of the interest surrendered or released. *Stanyforth* v. *C.I.R.* (1930, A.C. 339; 9 A.T.C. 128) being followed. His lordship drew attention to a point arising from the wording of one of the deeds which might, it would seem, affect the deed's validity. He refrained, however, from expressing any opinion as to its precise meaning.

Tax Case—Advance Note

By H. MAJOR ALLEN

CHANCERY DIVISION (DANCKWERTS, J.)

Commercial Securities Limited (In Liquidation) *v.* C.I.R. October 13, 1953.

Facts.—The company, which was at all times an " investment company " as defined in Section 20(1), Finance Act, 1936, passed a winding-up resolution on April 29, 1949. Between that date and February 1, 1950, when the distribution of the company's assets was completed, the liquidator received dividends and interest amounting to a gross sum of over £26,000. Under the provisions of Section 20(6), Finance Act, 1936, the Special Commissioners directed that the actual income of the company for the period subsequent to the passing of the winding-up resolution should be deemed to be the income of the members thereof, and no appeal was made against that direction. Certain shares in the company were vested in trustees of settlements under which named individuals were entitled to income for life, with remainders over to various other individuals. The income of the company for the period in question, however, so far as it was distributed in course of liquidation to the trustees of the settlements, went as an accretion to the capital of those settlements and not by way of income to the tenants for life. The Special Commissioners apportioned part of the income of the company proportionate to the trust shareholdings to the life tenants for sur-tax purposes and the company appealed against that apportionment.

Decision.—Held, by Danckwerts, J., that the apportionment was made on wrong principles and that the appeal must be allowed.

The Student's Tax Columns

TAXATION OF INFANTS

" AN INFANT " IS, OF COURSE, THE TERM APPLIED BY LAW TO an individual who has not attained the age of 21 years. The Income Tax Act, 1952, provides that if an infant is chargeable to tax, then his parent, guardian or tutor is liable for the tax in default of payment by the infant, but is to be allowed all sums so paid in his accounts (Section 364), i.e. out of money which comes to his hands on behalf if the infant (Section 363). Any person acting in any character on behalf of an infant can be called upon to make a return of the infant's income (Section 21).

As there is no minimum age at which a person can be assessed, assessment can be made direct on the infant (*Ex parte Huxley*, 7 T.C. 49, where the infant was a jockey assessed on his earnings), but that does not absolve the parent or guardian from liability if the infant fails to pay. In practice, direct assessment is confined to earned income, or cases where most of the income is earned. Repayment claims are made by the parent, guardian or trustee, except that repayment of tax overdeducted under P.A.Y.E. is made to the infant himself. The infant can also make a claim personally if he has full control of both capital and income.

Where the interest of an infant in a trust is contingent, tax will only be repaid year by year by reference to the gross equivalent of the money spent on his maintenance, education or benefit. Any claim for repayment against such income must be made within six years of the year to which the claim relates.

No more will be repayable at any time unless the remainder of the income is accumulated for his benefit contingently on attaining a certain age or marrying under that age, in which case a claim can be made on attaining the specified age for repayment of tax on the balance of the allowances and reliefs not already had, over the whole period of the accumulation.

It is appropriate here to mention that income which is so accumulated is not regarded as income of the child so as to prejudice child relief to the parent over the period of accumulation ; only the gross equivalent of the amounts spent on the child each year is so regarded.

If the infant's interest in the income is vested, then the whole of the income is his as it arises, and repayment claims must be made within six years or they are out of date.

For sur-tax purposes, the income of the infant consists of his vested income (whether accumulated or not) and the gross equivalent of money spent on him out of a contingent interest. The accumulations under a contingency escape sur-tax altogether. A trustee cannot be assessed in respect of an infant beneficiary's sur-tax (*C.I.R.* v. *Longfad* 13 T.C. 573). If the beneficiary of a discretionary trust does not pay his sur-tax within six months of the due date, the Special Commissioners may serve notice on the trustees requiring them to use, in paying sur-tax due, the next amount they decide in exercising their discretion to pay (Section 244). Income accumulated under the statutory trusts of the Trustee Act, Section 31(2)(ii), is contingent.

It is well to note here that any income in excess of £5 a year which the parent makes over to his infant child, either by gift of the capital or in any other way, remains income of the parent for income tax and sur-tax purposes so long as the child is an infant and until the income tax year following that in which he reaches the age of 21. The only exception is where the parent puts capital into a trust to accumulate the income for the infant ; income so accumulated is not that of the parent. Any sums spent out of the income on the child, however, are income of the parent and no claims for the reliefs appropriate to the infant can be made, nor do they prejudice the child relief to the parent.

The Month in the City

A Resounding Success

THE EVENT OF THE MONTH IN THE STOCK market has been the response to the offer of the *United Steel Companies* ordinary shares, of which particulars were given in the November issue. While the lists were open the steel industry had achieved an all-time record for production, but this was only announced too late to influence the result. Equities had, however, risen to a new high for recent months, while gilt-edged prices had tugged loose the very ineffective peg provided by the fixed tender rates for the new shares. In the event, apart from firm underwriting, the issue was covered almost twice and to the extent of more than half by those who were proprietors of the company at vesting date. These, with the advantage of pink forms, secured a full allotment on applications up to 10,000 shares, a very high figure. The comparatively few institutions which tendered for more than that received 23 per cent. All other applicants, including the firm underwriters, got only a full allotment up to 200 shares and above that 11 per cent., subject to a minimum of 200. It is, of course, quite impossible to say how much of these applications came from "stags," but total applications numbered some 52,000, calling for £50 million in cash and gilt-edged securities. Owing no doubt in part to the rise in prices the amount of funds accepted appears to have been around £3,750,000 in cash value. Of the total of 14 million shares placed it seems that around 70 per cent. went either to those holders of pink forms who received full allotments or to applicants, presumably mainly members of the public, who applied for 200 shares, or less, on ordinary forms. Unless a very heavy proportion of the latter were stags, the demand from the ordinary investor seems to have been far larger than was commonly expected, and the investment in this, the first of the de-vested steel stocks, appears to be very widespread. At the opening of business there was a large turnover and the price settled down at around 3d. premium.

Gilt-Edged Advance

It seems that this reception of the steel issue must mean that people at large are reasonably assured that the present Government will remain in office long enough to permit an adjustment of opinion on re-nationalisation and that they are expected to prevent any really major recession in the demand for the products of the steel industry. This latter view would square with the further improvement in both the Funds and industrial Ordinary shares which has been a feature of the early part of the month. A new temporary record for recent months of 131·5 was reached by the equity index of the *Financial Times* on November 4, after which poor results by *Tube Investments* caused a little profit taking and some recession in prices. Apart from this, actual company results probably made a better showing in October and early November than those of a month before, although we are not yet in the period when the latest results exceed their immediate predecessors. There is also some ground for encouragement in the preliminary figures of September production by industry, which touched a new high level. With these exceptions, events have not been particularly kind to the "bulls." The gold reserve figures were a trifle disappointing and the October trade returns not very clearly the reverse. Mr. Butler has made more than one speech in which an admission of progress has been tempered by warnings that neither the external balance nor the budgetary position is such as to warrant optimism and that greater efforts at production and export are still urgently needed. All this failed to halt the rise in either fixed interest or equities. The whole of the former list rose by a full point in the three weeks to mid-November, while the latter improved by at least three times as much. The one important section to suffer was gold mining shares, but these staged a sharp recovery later on figures of uranium output. As between October 20 and November 24 the indices compiled by the *Financial Times* show the following changes: Government securities, from 100·07 to 100·76; fixed interest from 111·28 to 112·46; industrial ordinary from 127·8 to 128·2; gold mines from 85·57 to 83·50 after touching 79·29.

Tube Investment Results

The *Tube Investments* preliminary figures showed, in their crudest form, a drop of over one-third in earnings, and this sufficed to upset a market in industrials which was already over-bought. Later particulars show a fall in real comparable earnings of 27 per cent., and we have the word of the chairman that this arose from a drop of only 4 per cent. in turnover. This figure is, however, struck after providing for depreciation at nearly double the amount permitted for tax purposes. It is the "sales turnover" which is down by 4 per cent. and it is evident that profit margins have been drastically cut in these times of buyers' markets. If this sales turnover is a money figure the increase in quantities must have been material. This would be all the more satisfactory in view of the known fact that in certain lines, such as exports of cycles to Pakistan, the market has been cut to the point of extinction by import controls. Perhaps there were difficulties in most sections of the company's activities, but a record year was secured in the general and engineering divisions, which goes some way to support the belief that, in these post-war days, demands for capital goods are relatively constant, while there is a tendency for consumption goods to bear the main strains. Despite the setback, the group is doing well and there is no doubt that heavy capital outlays on modernisation, improvement and expansion account for this in large measure.

Take-Over Bids

The whole subject of take-over bids has been very fully ventilated of late in a number of quarters, including a lengthy correspondence in *The Times*. The opportunity for a number of genuine offers to pay much more than current market prices arises in very large measure from Government restrictions in the past, accentuated by the continuing desire of company boards—and it may be of some auditors—to avoid placing a high value on assets whose permanent worth as earners of dividends may be difficult to ascertain. It arises also, in part, from the fact that some boards are less energetic, or perhaps less efficient, than would-be buyers consider necessary. There is also the fact that some directors pursue what, by any definition, is an ultra-conservative dividend policy. In these cases no exception can be taken to the fact that those who believe they can do better than the present board wish to acquire control. Existing boards are making adjustments which will reduce the probability of their losing their positions, but the bids continue. There are, however, other cases in which either bids have been scarcely serious or there may have been no bid at all but reports of such bids have been put about by interested parties. Here no harm is done provided the reports are ignored. But, of course, they are not. In most cases, there is certainly no call for special action, either by the legislature or by the stock exchanges. But once any attempt at real market rigging is suspected that is another matter. It appears that the directors of the *Savoy Hotel* suspect such action and, as reported in a Professional Note on page 376, there is to be a Board of Trade investigation under the Companies Act, 1948.

Points From Published Accounts

A Complicated Profits Picture

Practically all of the detailed matter in the accounts of *Clifford Motor Components* is dealt with in a series of schedules. The advantages are as obvious as the disadvantages. The chairman's statement is printed separately, and this is a definite asset as he has some complicated territory to traverse. All the same, in order to keep up with him, as it were, it is necessary to keep flicking the pages of the accounts. The prime trading balance shown in the profit and loss account is after deducting taxation, shown in a schedule, as well as after providing £160,600, against £50,000, provision for doubtful debts by a subsidiary. The company is evidently compelled to disclose this under the Eighth Schedule, paragraph 12 (1) (*f*). Then another footnote states that payments under subvention agreements between certain subsidiaries have been made, with the result that the group charge for income tax has been reduced by £89,550. The chairman explains that this reduction is "in respect of losses incurred by the subsidiary company referred to above." This is the only explanation given, but whether it is sufficient for shareholders is open to question. Certainly it is a very complicated profits picture that shareholders have to analyse.

In The Crystal

An example of the letter of the Companies Act being complied with, but the spirit of the Act being given inadequate recognition, is provided by the accounts of *Crystalate*. The fact that the chairman may have intended, when the accounts were sent out, to give full details in his speech at the meeting does not dismiss as irrelevant the view that shareholders have difficulty in getting to grips with the important details of the subsidiaries. A footnote to the accounts says:

"This account includes the profit of Crystalate Limited, Mica Products Limited and Crystalate (Printing) Limited for the eighteen months ended March 31, 1953, and the British Homophone Limited and Ebonestos Industries Limited for the two years ended March 31, 1953."

The directors' report enlarges on this by giving profits before and after tax of British Homophone and Ebonestos Industries for each of the two years; they account for over 50 per cent. of group net profits. It also states that a greater proportion of the trading profit of Crystalate (the parent) and Ebonestos was earned in the earlier part of the period covered by the accounts. Naturally, what the parent earned can be seen from the parent accounts, but as the Ebonestos figures are lumped with British Homophone the shareholder cannot determine what the latest *annual* net profits of the group were.

No Night Starvation

A useful feature of the accounts of *Horlicks* is the presentation of detailed profit and loss accounts for the parent, the subsidiaries and the group. As these are set side by side, and as the comparative figures are presented, also alongside, in a distinguishing green ink, the task of comparing the figures in detail is not by any means as complicated as might be supposed, and the company is able to highlight the extent to which the subsidiaries are responsible for the reduction in group profits.

J. & F. Stone

J. & F. Stone Lighting and Radio shows one way of dealing with non-recurring items. It strikes the net profit after taxation before crediting income adjustments relating to previous years and tax and repairs provisions no longer required. It is a pity that more companies do not follow suit.

For Services to Shareholders

The Accountant, as we noted in our last issue (page 352), has broken new ground in proposing to make one or more awards annually to companies whose shares are quoted on a recognised stock exchange and whose accounts measure up to certain yardsticks. A panel of judges (including Mr. Bertram Nelson, F.S.A.A., the Vice-President of the Society of Incorporated Accountants), has been formed, and among the factors it will consider are the adequacy of the information given and its presentation.

We hope *The Accountant* will invite interested companies to submit their annual reports, thus stimulating the maximum amount of competition and making the scope of the contest a wide and varied one, rather than itself choose accounts for consideration by the panel or even leave the choice to the panel. It is important that the accounts of a company in which there is small public interest should not be overlooked, for the relatively unknown company might well be worthy of a prize.

"Oscars"—even if rather insubstantial ones—have been awarded in this section of ACCOUNTANCY in the past, with the nagging uncertainty that there may have been equally worthy candidates that had not been considered.

A few suggestions for accountants who hope to participate in the competition, directly or indirectly, may be helpful, even though *The Accountant* has not announced what constitutes "adequate information" and on what basis the accounts will be marked. Our suggestions are not made in any order of priority, for the simple reason that the panel's order of priorities is not known.

1. Employ a first-class photographer and artist. Reproduce good photos of the Board, the factory, the goods produced, the workers at work. Hit upon a novel way of showing "Where The Money Goes." Methods already adopted have been: pie charts; a sliced cake; £100 worth of coins stacked in appropriate heaps over wages, P.A.Y.E., tax, dividends and so on; a £1 note torn into pieces of appropriate size with each piece identified as with the heaps of coins; and block diagrams. Follow an American practice and have any diagrams or statistical records certified correct by the auditors.

2. Study the ten-year record with the accounts of *Thos. W. Ward*. There may be marks for boldness if directors give this information despite a slump in profits.

3. Assuming the company's auditor is—as he surely must be!—a first-class professional accountant, ask him to imagine that he holds all classes of the company's shares but, though possessed of a modicum of common sense, has no expert knowledge of accounts, but he wants to know in the simplest possible terms the cover for his dividends without having to worry about the theoretical treatment of non-recurring items.

4. Decide that the "net profit after tax" will exclude non-recurrent windfalls or debits of any kind. These can be shown in a footnote and their net amount added to or deducted from the amount brought forward. Deduct dividends before adding the amount brought forward and before reserve appropriations.

5. Get a copy of the *Lewis Berger* accounts, and remark that they are enclosed within a handsome sales brochure. Note that they are printed on different paper from the sales brochure, observe the use of colour, and so on. This brochure can be a blueprint for, say, a history of the company and descriptions of its activities, with proper illustrations. Note the importance of using a good quality art paper.

6. Use the "old-fashioned" balance-sheet and the tabular profit and loss account.

7. Obtain the opinion of any cynical financial expert before having the printer set the presses turning.

Publication

FOUR ESSAYS IN ACCOUNTING THEORY. By Professor F. Sewell Bray. (*Oxford University Press. Price 15s. net.*)

Four research lectures by Professor Bray are brought together in this book, published under the auspices of the Incorporated Accountants' Research Committee. It is a book which ought to be read by any accountant who is interested in two related questions. Firstly, how much depth is there in our accounting technique? Is it the kind of subject which may get more complicated but which some day soon will cease to expand? Secondly, are there common principles which could be applied to the design of all accounting forms so that the same kind of fundamental classification could be used for the accounts of the small shopkeeper and for the aggregate accounts of the nation?

There is no easy way of deciding whether a particular subject or technique is merely a convenient tool, or whether it is part of the substance of the universe—whether, for example, our accounting procedures are more nearly akin to the transient conveniences of stockbroking or to the eternal values of mathematics. Occasionally accountants achieve the agreeable experiences recently described by Sir Edward Appleton in his presidential address to the British Association—the discovery of a theory or procedure which yields results which are surprising but yet inevitable, experiments which seem to show faintly that our work is fitting in with some universal pattern which is there but which we cannot yet see. Occasionally this happens to accountants when, for example, we find that the familiar idea of double entry can deal adequately with consolidated accounts and also with the complex flow of goods and services which make up the economic activities of all the people and institutions in a nation or, even, in the whole world.

Professor Bray's purpose in these four lectures is " to concentrate upon a thesis which might be described as the pure theory of accounting—a theory that seeks to apply universal concepts of structure, form and measurement to any and every economic activity which requires to be reviewed by means of accounts." He intends, in fact, to prove that there could be depth in our accounting procedure because behind our techniques there are (or could be) universal principles which are always true. Perhaps the easiest way of looking at Professor Bray's thesis is to see how he would redesign our conventional accounts to express the universal concepts which he advocates.

These accounts—here somewhat condensed—are worthy of careful study. Many of the proposals are controversial: for example, depreciation is on a current cost basis (instead of historic cost) and stocks are separated into " standard inventories " and " speculative inventories " (that is, the base stock method is adopted). Professor Bray's great achievement is to lift controversial matters such as these to the plane of principle, related to such fundamentals

OPERATING ACTIVITY

Input allocations	*Output value added*
I. Labour—Wages and salaries and social insurance contributions	I. Net sales of goods and services
II. Capital	
(i) Rents (imputed or actual)	II. Minus net purchases of goods and services varying with output
(ii) Depreciation of real assets, measured in terms of end-period prices	III. Changes in inventories
(iii) Interest on real assets measured in terms of end-period prices	IV. Minus net purchases of goods and services related to productive facilities, not varying with output
III. Operating surplus	
	Total value added

APPROPRIATION ACCOUNT

I. Interest on borrowed money	I. Operating profit
II. Direct income taxes	II. Interest on real assets employed
III. Dividends paid and proposed	III. Income from investments
IV. Retained income	
V. Transfers to reserves	IV. Retained income of the period
VI. Retained income carried forward to next period	V. Withdrawals from reserves and provisions
	VI. Retained income brought forward from last period

BALANCE SHEET

I. Authorised capital	I. Fixed assets
II. Issued capital and capital reserves	1. (i) Real or physical
III. Revenue reserves and retained income	(ii) Minus accumulated provisions for depreciation
IV. Long-term liability claims	2. Deferred expenditure benefiting the activities of future accounting periods
V. Short-term liability claims and provisions	3. Intangible
VI. Deferred liabilities	4. Standard inventories
	II. Long-term asset claims
	1. Investments
	2. Lending
	III. Short-term asset claims
	1. Speculative inventories
	2. Debtors
	3. Bank and cash balances

as the notion of every business enterprise as a continuing entity and the necessity that accounting methods must be *consistently* employed.

The pure theory of accounting is developing fast. Rules of procedure which were unhesitatingly accepted twenty years ago are in many cases now suspect while, on the other hand, many of our methods, developed for practical reasons, are found to rest on profound principles. It is important in such times that the accountant dealing with the practical affairs of his profession should know something of the direction in which theoretical thought is going. Professor Bray, who has taken a leading part in these new and exciting developments, has in these lectures brought together and summarised principles which may have a profound effect in the next few years on the development of accounting techniques.

B. N.

The " Equity Pension Scheme "

A bold departure from conventional practice in insured pension schemes has been made by *Equity & Law Life Assurance Society*, with their newly-devised " Equity Pension Scheme." Pension schemes arranged by British life offices are normally on a without-profit basis, but the Society contends that since a pension scheme may continue for many years into the future it should participate in profits. Bonuses are allotted under the " Equity Pension Scheme," which can be arranged so that they either increase the pensions or diminsh the cost. A special technique is used in calculating the premiums which makes it possible to plan for a smooth progression and avoid inconvenient fluctuations as the employees and their ages change from year to year. Other new features of the " Equity Pension Scheme " are that pensions for employees who have to retire early on account of ill health are improved, and other special requirements of individual employees are more easily met. Furthermore, it is claimed that an " Equity Pension Scheme " can be revised more easily than one of a more conventional type.

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Readers' Points and Queries

Valuation of Shares in a Private Company

Reader's Query.—I read with interest the article "Valuation of Shares in a Private Company," in your September issue. It seems to me that your contributor may have misstated the case where, on page 288, he writes that "What was for sale was . . . 140 shares and the right to control the company." In terms of the article of the company quoted on page 286, the directors would take these shares equally between them. As these directors are already equal shareholders, the 140 shares do not constitute a controlling interest—in fact, they do not alter the rights or powers of these directors at all. Consequently, the company auditor was right in not considering the question of control when making his valuation, as he was, in fact, valuing two parcels of 70 shares each.

Reply.—What was to be valued was, in fact, a parcel of 140 shares because this was the number of shares left by the deceased member. The fact that, once sold, these would be divided equally (unless otherwise agreed among the purchasers, who happened to be two in number) did not affect the value before sale or on sale. Those 140 shares did give the right to control the company: the fact that two persons would (probably) take them merely meant that that control was shared between two persons who could, none the less, sell the undertaking to good account for their joint benefit.

Pension Funds—Refunded Contributions

Reader's Query.—I was interested in the inference in the first paragraph of the note on page 294 of the September issue of ACCOUNTANCY that tax at one quarter of the standard rate could be deducted from refunded contributions.

I had always understood that Regulation 8 of S. R. &. O., 1921, No. 1699 placed the liability for tax at the reduced rate squarely on the trustees of the fund. I am aware of an instance where the Inland Revenue were asked whether the tax could be recouped by deduction and it was intimated that if such a deduction were made the Fund would be liable not only to meet the liability placed on the Fund under the Regulation, but also to account to the Inland Revenue for such deductions.

I should be obliged if you would indicate the grounds on which the deduction implied in your note is based and also whether the "net" calculation illustrated applies only to such tax as is deducted from any refund or whether it may also be applied to all tax at the reduced rate on refunded contributions payable by the trustees.

Reply.—It is quite correct that the liability for tax is on the trustees. The note in the September issue was not intended to imply anything else, but to show the total amount required to satisfy the refund of contribution and the tax thereon.

Capital Statements

Reader's Query.—I am greatly interested in the articles which have recently been published in ACCOUNTANCY under the heading "Capital Statements," particularly the reader's letter in the October issue on page 336.

I am aware of similar cases where the Inspector casually remarked that the figures in the statements were to a great extent irrelevant and that the figures shown for items such as cash in hand were of no consequence at all. Granted, the Revenue have the "bull by the horns" all the way in back duty cases and accountants are faced with the predominant factor that their client is "on the wrong foot" from the very start of an investigation. This, however, is no excuse for the Revenue to dismiss the validity of certain items due to the fact that writs and deeds are not available for every item purchased and every item sold.

Documents of substantiation are very difficult to come by after a period of twenty years or more and very often it is found that the vendor or purchaser of items from the taxpayer is very reluctant to admit having been a party to a transaction in the past.

It would be interesting to know the value the Revenue would attach to the undernoted documents:

Bank pass book.
Original vouchers for items purchased.
Copy vouchers for items purchased.
Auctioneers' statements for goods sold.
Copy auctioneers' statements for goods sold.
Letters from vendors or purchasers of goods confirming transactions in the past.
Building society pass books.
Letters from executors of deceased merchant confirming certain transactions between the taxpayer and the deceased.

Living expenses can be the "thorn in the flesh" of all concerned in a back duty case, and probative matter relating thereto is almost non-existent. However, merchants' statements for domestic requirements for past years can be helpful in ascertaining a scale of living.

As to cash balances, periodical counting and certification are factors that an accountant could put to very good use and they would certainly go a long way in corroborating the existence of this all too important asset; but, there again, the Revenue would probably be reluctant to take such evidence as proof, since it is most unusual for a man to take periodical cash balances and prepare certified statements at the time of counting.

Very often cash balances can be verified in a more conclusive, although not probative, manner, e.g. capital statements balanced December 31, 1930, showing cash balance £1,050. The taxpayer is able to produce a solicitor's cash account showing that from the sale of property he received on November 30, 1930, a cheque in settlement, value £990. This may account for all but £60 of the cash balance.

It would appear that although the Revenue might remark that the cash in hand figure shows only what it might have been, the figure in question is a point of argument which will always be in the forefront of discussions on back duty cases.

Reply.—It is not the custom of the Revenue to disregard any evidence of whatever nature, but naturally the evidence has to be dealt with on its merits. The credibility of the defaulter is also an important factor, with all the surrounding circumstances.

One factor that has rather been overlooked is that the rates of penalties—such as £20 plus three times the whole tax bill of the year—were fixed in times when the rate of tax was 7d. in the £—the Revenue ought to be reminded of that fact sometimes.

Inter-Company Payments Under Section 20, Finance Act, 1953

Reader's Query.—In your May issue, on page 151, it was stated that "a payment made by the company to an associated company to make good a loss is to be regarded as a trading payment of the one and a trading receipt of the other," but upon studying the relative Section it would appear that such inter-company payments and receipts are to be effective only where the companies concerned stand in the relationship of parent and subsidiary, or are both subsidiaries of a third body, continuously from the beginning of the payee's relative accounting period to the date when the actual payment is made.

The company of which I am secretary is director-controlled. It has a fairly substantial income tax liability, but an *associated* company, which is also director-controlled (by the same directorship as

this company), has considerable tax losses which cannot, apparently, be used for many years to come.

(*a*) Is it necessary for my own company to purchase the shareholding of the other company in order that advantage may be taken of Section 20, Finance Act, 1953? Further, is it necessary to acquire the shareholding of the second company with effect from the beginning of the next financial year?

(*b*) One final point upon which I should be grateful for your advice is whether it is necessary for the parent and subsidiary companies to have an express agreement for sharing losses or a particular loss.

Reply.—(*a*) *Yes. By Section 20 (10), Finance Act, 1953, a company making a subvention payment to another is treated as associated with it only if* at all times *between the beginning of the payee's accounting period in respect of which the payment is made and the making of the payment, one is the subsidiary of the other or both are subsidiaries of a third company. The Profits Tax rules of Section 42, Finance Act, 1938, determine what is a subsidiary. The existence of mutual shareholders, as they are individuals, is not a qualification.*

(*b*) *This seems to be implied.*

Letters to the Editor

The Treatment of Travelling and Entertainment Expenses

SIR,—Having condemned in a recent sermon both the workman who never did more work than he was compelled to do, and the business man who made a good thing out of so-called expenses, my attention was drawn to an article in the November issue of ACCOUNTANCY concerning such expenses. Some parts of the article were illuminating, some amusing, and some offensive: a very complex curate's egg indeed. What the writer seems to have failed abysmally to appreciate is the nature of the ethical issue at stake. If business is to be a mere matter of making money, then God help society; I hope there may be some who approach their work, whether it be on the factory floor or in the director's office, with a sense of purpose and vocation. Such people will not be concerned with what they can get but with what they can give. If Mr. Spicer was trying in this article to condone the attitude that the business man is morally justified in using any means to evade taxation provided he can keep within the letter of the law, then he has a very different view of the nature of society from that which has prevailed in the West since the days of the Roman Republic.

May I respectfully suggest to Mr. Spicer that he gives thought to the following points? First, not all the clergy are ignorant of the world at large; many have spent years in secular occupations. Most of them come from middle-class homes where money was a matter of great concern.

Secondly, many of the clergy could, like myself, quote more than one actual instance of the abuse of business expenses.

Next, if the clergy attack certain business methods it is because they see the false ethics that lie behind them. Moreover, the lazy worker, the pleasure seeker and the indifferent are just as favourite Aunt Sallies to the preacher as the prosperous business men among his flock.

Lastly, the preacher attacks the evil in order to advocate the good, not for the delight he gets from calling the Devil names. The Christian basis of society is a positive one, indeed it is the only positive one, for it is the only one that has as its first principles and as its final aim the revealed will of God. *Integritas* has no meaning apart from *Fides*, and *Fides* must be centred upon God.

Yours faithfully,

(Rev.) ALAN D. ROGERS.

Saffron Walden,
November 11, 1953.

[Mr. Spicer replies as follows:

It is difficult for me to believe that Mr. Rogers ever read my article *The Treatment of Travelling and Entertaining Expenses*, because—indirectly—he accuses me of condoning the very sins which I condemn so heartily.

The article was, in reality, a "trumpet call" to the whole business community, directing their earnest attention to the "false ethics" of the Inland Revenue authorities. Mr. Rogers has therefore—inadvertently, I am sure—mistaken a saint for a sinner.

My article did not, in any way, condone the deeds of those who "make a good thing out of so-called expenses." It was a serious appeal to the Inland Revenue authorities to allow honest men to charge, against their earnings, reasonable travelling and entertaining expenses, actually incurred in the normal course of business. I quoted a case which came before Mr. Justice Roxburgh (whose judgment was upheld by the Court of Appeal) in order to illustrate exactly what I had in mind.

In these circumstances, I fail to understand how Mr. Rogers can read into the article the wholly unwarranted suggestion that I regard business as a mere matter of money-making, and that I regard a business man as being morally justified in using any means to evade taxation, provided it be within the letter of the law.

Dealing with the specific points to which he invites me to direct my particular attention:

As regards (1) Amongst my friends I number three clergymen who have had business experience. I am aware therefore that "not all the clergy are ignorant of the world at large." It is, however, true to say that—generally speaking—clergymen lack all business training. I am also aware of the fact that to most clergymen money is, unhappily, "a matter of great concern." On the other hand, I have come across several very wealthy representatives of the Church, who have sought my guidance and instruction in the matter of their sur-tax returns.

(2) I do not doubt that Mr. Rogers could quote "more than one actual instance of the abuse of business expenses." A sermon condemning business men generally which was based on a single instance of wrongdoing would not be very convincing.

(3) The clergy are, of course, justified in attacking business methods where "false ethics lie behind them." It is, however, vitally important that they should thoroughly understand the business methods in question before commencing hostilities. I would also suggest that "the prosperous business men among the flock" should not be condemned out of hand merely because they are prosperous. After all, it is honesty that pays, not dishonesty.

(4) Although it is unpardonable to ridicule true religion, it is well to remind clergymen from time to time that by launching attacks on the business community from the pulpit, when their utterances cannot be challenged, they may be guilty of "hitting below the belt." It should never be forgotten that parsons, like judges and schoolmasters, occupy privileged positions.

My own experience—extending over more than half a century—is that the standard of honesty and of commercial morality in this country is quite extraordinarily high.

As to entertaining, as a basis for business relationship, this surely springs from the age-old tradition that a man who eats of

another man's bread places himself in a position of trust towards his host, and is morally bound to act honourably towards him.

Doubtless Mr. Rogers will have informed himself regarding this tradition in his studies of Holy Writ.]

Take Your Partners

SIR,—It was with both surprise and pleasure that I read the pleasant comments, published on page 369 of your November issue, on this society's 1953 accounts.

Your column "Points from Published Accounts" is normally occupied by a technical analysis of accounts of the large industrial concerns which are household names. I had, therefore, little expected that you would devote space to this society, although it may well be that many households are equally as well aware of our existence, and the remarks certainly provided light relief.

It would seem, however, that our inclusion may be due, primarily, to the interest of your writer's daughter in dancing.

I should be grateful if you would grant me permission to quote your comments in the next issue of our *Dance Journal*. It may be that thereby the 5,000 members of this society would acquire an interest in accountancy, and my frequent complaints about the artistic mind in a business capacity might then be reduced. Conversely, should your article introduce accountants to a closer acquaintance with dancing, I am sure their life, both professional and private, would be enhanced, and I should be glad to advise on suitable schools for their instruction. A *quid pro quo* fee basis might advantageously be agreed, but perhaps this would be unprofessional.

May I answer your writer's imaginative comments upon our medal reserve and disabuse your readers from any false belief that our examiners are stricter or our medals thinner than of yore? During the war years when medals were unobtainable (for dancing) we issued acknowledgment cards to successful medal tests candidates and created a medal reserve. Since 1946 medals have been exchanged for the cards, utilising the reserve, but of late this service has been most infrequently applied and so much of the reserve as was computed to be excessive has accordingly been transferred to our accumulated fund.

Your light-hearted criticisms are accepted in the spirit intended and their core of truth will, I hope, lead to improvements in the future.

Yours faithfully,

P. J. PEARSON, A.S.A.A.,
General Secretary,
Imperial Society of Teachers of Dancing.

London, W.1.
November 9, 1953.

LAW

Legal Notes

Executorship Law and Trusts—Trustees of Friendly Society

In **Re Pilkington Brothers Ltd. Workmens' Pension Fund** (1953, 1 W.L.R. 1084) Danckwerts J. held that a society registered under the Friendly Societies Act, 1896, was entitled to appoint a corporate body as its sole trustee even though that body was not a "trust corporation" as defined for the purposes of the Trustee Act, 1925.

Executorship Law and Trusts—Gift of "my bank deposit at the Midland Bank."

In Re Heilbronner, deceased (1953, 1 W.L.R. 1254) is a good example of the difficulties caused by the specific bequest of funds which are liable to change their identity between the date of the will and the date of death. H. made no express bequest of the residue of his estate, but among other specific bequests he left to Nurse K. in recognition of her services "my bank deposit at the Midland Bank." At the date of the will H. had a credit balance of £1,700 with the bank, but shortly afterwards he used the bulk of this to buy some saving certificates and defence bonds. At the time of death H. had the documents of title to these securities deposited with the bank but he had no money either on deposit or on current account, as he had withdrawn the whole balance a few weeks before his death and had handed the money to one of his executors so that he could pay the testator's household accounts: the executor still had £236 in his hands.

Roxburgh, J., suspected that the testator's real intention was to give his whole property to K., charged with the payment of his debts and funeral expenses and the other specific legacies; it was, however, quite impossible to construe legally in this way the language which had actually been used. He decided that K. was not entitled to the savings certificates or defence bonds, but did take the £236 remaining in the executor's hands.

Executorship Law and Trusts—Disposal of Surplus of Relief Fund.

The flood disaster which overtook the district of Lynmouth in August, 1952, stirred the sympathy of the public and the appeal issued by the Lords Lieutenant of Devon and Somerset brought in over £1,300,000. This sum was found to be more than was necessary to meet all proper claims under the appeal and in **Re North Devon and West Somerset Relief Fund Trusts** (1953, 1 W.L.R. 1260) the Court had to consider what should be done with the surplus.

The first question was whether the trusts of the fund were valid charitable trusts, a term which in law has rather a restricted meaning. The appeal had been issued very soon after the disaster and was naturally not couched in legal language. Wynn-Parry, J., said that in construing such a document he must not pay too much attention to any particular words but should regard the general intention, which was to relieve the hardship and suffering experienced in the locality. The trusts were therefore charitable. His Lordship further decided that the numerous donors who had answered the appeal had a general charitable intention in sending their gifts and that the balance of the fund should be applicable *cy-près* for some other charitable purpose and should not be returned to the donors.

Miscellaneous—Liability of tenant for repairs.

The vast majority of weekly tenancies, and a considerable number of longer tenancies also, contain no express provisions on the liability either of landlord or of tenant for repairs, and there has been a curious dearth of authority on the extent to which a tenant is under any implied obligation to repair. There was some authority for saying that a tenant from year to year had an

implied obligation to keep the premises wind and water tight, but there was nothing to throw any light on the scope of that obligation. A good deal of light has now been thrown on the implied obligation of a weekly tenant by the case of **Warren *v.* Kean** (1953, 3 W.L.R. 702). In the words of Denning, L.J.: "The tenant must take proper care of the place. He must, if he is going away for the winter, turn off the water and empty the boiler. He must clean the chimneys, when necessary, and also the windows. He must mend the electric light when it fuses. He must unstop the sink when it is blocked by his waste. In short, he must do the little jobs about the place which a reasonable tenant would do. In addition he must, of course, not damage the house, wilfully or negligently; and he must see that his family and guests do not damage it; and, if they do, he must repair it. But apart from such things, if the house falls into disrepair through fair wear and tear or lapse of time, or for any reason not caused by him, then the tenant is not liable to repair."

The Court left open the question whether the liability of a tenant from year to year is higher than that of a weekly tenant. Before the Court has to decide this question, the Government may have fulfilled their announced intention of framing by statute a standard set of covenants which will be implied in all tenancies unless an express agreement is made to the contrary.

THE SOCIETY OF
Incorporated Accountants

THE FUNCTIONS OF INCORPORATED ACCOUNTANTS

AT A DINNER HELD BY THE INCORPORATED Accountants' District Society of East Anglia at the Royal Hotel, Norwich, on October 21, under the chairmanship of its President, Mr. F. G. F. Platten, M.C., F.S.A.A., the company of nearly 100 members and guests included the Lord Mayor of Norwich (Mr. Ralph H. Mottram, J.P., F.R.S.L.); the Bishop of Norwich (Right Rev. P. M. Herbert, D.D.); Mr. A. South (Sheriff of Norwich); Mr. C. Percy Barrowcliff, F.S.A.A. (President of the Society of Incorporated Accountants) with Mr. I. A. F. Craig (Secretary); Mr. C. H. Sutton, F.S.A.A. (Deputy Lord Mayor); Mr. Eric Hinde, J.P. (Vice-President, Norwich Incorporated Chamber of Commerce); Mr. F. R. D. Walter (Official Receiver); and Mr. Leonard Howes, F.A.L.P.A.

The Lord Mayor of Norwich (Mr. Ralph H. Mottram, J.P., F.R.S.L.), in proposing the toast of the Society of Incorporated Accountants, said that 650 years ago, within 400 yards of that room, there was sitting in the Cloisters of the cathedral, under a roof more than half burnt out, an old man called Bartholomew de Cotton who was not attired in the dress Incorporated Accountants now affected. He added up the lists of the rents due and the rents paid on large numbers of firms and houses. But not all was paid in cash, and by the year 1300 the monastery was what would now be called "in the red" because "blackguards of citizens" in Norwich had broken in and burnt the place down. Norwich people were always the same!

Today, a very heavy responsibility fell upon accountants. This island, overcrowded as it was, and old-fashioned as it was proud to be, plainly could not live unless they maintained a planned and evident state of probity and integrity in its business affairs. He hoped that was being explained to young members of the Society and that there was being installed into them a sense of responsibility for the trading community of East Anglia.

Mr. C. Percy Barrowcliff (President of the Society of Incorporated Accountants) said that Mr. Platten was following in a long line of distinguished presidents of the East Anglian District Society, and his firm had provided one of their founders, the late Mr. H. P. Gowen, a former Lord Mayor of Norwich.

Mr. Barrowcliff referred to a recent speech by the President of the Law Society, who said that he personally favoured national advertising by the Law Society as a means of selling solicitors' services to the public, and that whereas forty years ago clients with tax problems turned automatically to their lawyers, solicitors had now let all that work go by default to accountants. Mr. Barrowcliff said so far as their own Society was concerned he gladly confirmed the statement that the happiest relationship existed between the Law Society and the accountancy profession. At the same time, taxation had become a highly specialised subject and to a large extent today was inextricably mixed up with accountancy. The Society, whilst demanding the highest standard in accountancy technique and practice in its qualification, did at the same time require an equal standard in taxation law and practice. Apart from acquiring the necessary theoretical knowledge to pass the examinations, its members were required to have actual experience in a practising accountant's office over a period of years. There could be little doubt that Incorporated Accountants were members of the one profession which could properly hold itself out as qualified to handle taxation work and all its problems. From the simple income tax return—if any Government form was ever simple—which might at any time give ground for some special claim, to the more complicated income tax computations, the taxpayer needed the services of an Incorporated Accountant. There were many other services which an Incorporated Accountant was qualified to undertake which should not be entrusted to people who called themselves accountants but had no real qualifications. Auditing of company accounts—and that included even the smallest trader's accounts—could only with safety be entrusted to an Incorporated Accountant or some other properly qualified accountant; their services were also available in connection with costing and management accounting, and an Incorporated Accountant required no further certificate or designation to qualify him in that field. His qualification included an adequate basic knowledge of costing and management accounting. It was certainly desirable to have a period of actual practical experience in industry in costing and management accounting after qualification to supplement the technical background, but no further examination was necessary.

In fact, any claim that a technical examination in costing and management accounting was a sufficient qualification was *without substance*, and it was desirable that industrialists should be warned that

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this field was in its nature and fundamentally pure accountancy. Therefore, only those who had been trained and had qualified as accountants—such as Incorporated Accountants—were fitted to undertake this responsible work.

He claimed also that accountants were the most suitable persons to be appointed trustees under wills. They had all the right qualities: they were trained in business principles, were cautious by the nature of their training and developed a balanced judgment, and integrity was their watchword. In making these submissions the Society was conscious of the members' responsibilities. The members held the reputation of the Society in their hands by the quality of their work. If they turned out indifferent work or work less than they were capable of doing they were not only harming themselves but were harming the rest of the Society and the profession at large.

Mr. W. P. Gill, F.S.A.A., proposed the toast of "The Trade and Commerce of East Anglia." He said the prosperity of trade and commerce was vital to every member of the Society. We had entered upon what it was hoped would be a second "Elizabethan age." We must be prepared to revive the spirit of adventure and willingness to take risks. Mr. Gill expressed appreciation of the work done by Chambers of Commerce in the various towns of East Anglia, and coupled with the toast the name of Mr. E. J. S. Hinde, a former Lord Mayor of Norwich, a director of the city's largest store, and vice-president of the Norwich Incorporated Chamber of Commerce.

Mr. Eric J. S. Hinde (Vice-President, Norwich Incorporated Chamber of Commerce) reminded those present that they were moving and living today in new conditions which had brought in their train new problems. For those who were to take the lead in commerce and industry in the future the new emphasis on education was tremendously important. The guidance of Incorporated Accountants was most important for the future.

Mr. C. H. Sutton, F.S.A.A., Deputy Lord Mayor of Norwich, proposed the toast of the guests, for whom Mr. F. R. D. Walter, the Official Receiver for the Norwich area, and Mr. Leonard Howes, F.A.L.P.A., last year's Sheriff of the city, replied.

SCHOLARSHIP IN ACCOUNTANCY

A DINNER WAS HELD BY THE INCORPORATED Accountants' District Society of Devon and Cornwall at the Queen's Hotel, Torquay, on October 30. The chair was occupied by Mr. S. G. T. Holmes, President of the District Society, and among the company were the Deputy Mayor of Torquay (Councillor W. H. White); Professor F. Sewell Bray, Stamp Martin Professor of Accounting and a member of the Council of the Society of Incorporated Accountants; Mr. I. A. F. Craig, Secretary of the Society; Mr. Ernest Vosper, President of the Incorporated Law Society of Plymouth; Mr. B. J. Stentiford, Chairman of Torquay Chamber of Trade and Commerce; and representatives of other professional bodies.

Mr. Ernest Vosper, President of Plymouth Law Society, proposed the toast of the Society of Incorporated Accountants. He recalled that the Law Society was incorporated in 1871 and that a few years later, in 1885, the Society of Incorporated Accountants came into being "to look after the lawyers." The Devon and Cornwall District Society was formed in 1934, and had been fortunate in having Mr. Pascho as its secretary ever since.

In Parliamentary language, relations between solicitors and accountants would continue to be friendly.

Professor F. Sewell Bray (Stamp-Martin Professor of Accounting and a member of the Council of the Society of Incorporated Accountants) responded. He conveyed greetings from the President of the Society, Mr. C. Percy Barrowcliff, who was unable to be present.

Professor Bray said he knew the work of the District Societies. He had approached them for help on research, and they had responded—on estate duty in family businesses and on a review of the Companies Act. That kind of work would have to be maintained, and it could not be successful unless members in the District Societies came forward with their own ideas.

They must face the fact that the older universities had not taken very kindly to accountancy. They wanted to know what was the philosophy behind it, and that applied also to the headmasters of the grammar schools. All that was very unsatisfactory, and the Society now felt that it must make a contribution to the profession as a whole on an intellectual basis.

The Professor stressed the importance of ideas—that the Society should have them and that their young men should have the opportunity to express them. He also emphasised the need for the introduction into the profession of more scholarship and learning, and he thought they all had a part to play in that. Bright young students ought to be helped forward, developed and inspired.

Mr. F. R. Balme, vice-president of the Devon and Cornwall District Society, proposing the toast of "The Borough of Torquay," paid tribute to the town as one of the most beautiful in the British Isles. The tourist trade was the life-blood of places like Torquay, and holiday interests had been doing what they could to bring about a reduction in railway fares. Mr. Balme expressed the hope that before long two new links would be forged between Devon and Cornwall—a bridge over the Tamar and a television station to feed both counties.

The Deputy Mayor of Torquay (Councillor W. H. White) in response, said accountants belonged to a profession that he had always endeavoured to treat with proper respect and with considerable care, because they had great powers in the business world. In Torquay they were very fortunate in the representatives of that great profession.

Torquay had very little in the way of industry and relied upon tourist traffic entirely. They had to spend a great deal in what some accountants might think a somewhat haphazard manner in the field of publicity, but he felt sure that the good sense of their profession would readily realise the importance of this.

Torquay was honoured to have been chosen for the dinner. The large number of young men present must be a source of gratification to the Society.

The toast of the guests was proposed by Mr. S. G. T. Holmes, President of the District Society. He expressed their regrets that Mr. Barrowcliff could not be present, and asked Professor Bray to convey a message to him that they of the west country were solidly behind him in what he did for the Society. They welcomed Professor Bray, first holder of the Stamp-Martin Chair of Accounting, and Mr. Craig, the Society's Secretary.

Mr. B. Stentiford, Chairman of Torquay Chamber of Trade and Commerce, responded to the toast.

EXPERIMENT AND ERROR

THE BIENNIAL DINNER OF THE INCORPORATED Accountants' District Society of Yorkshire was held at the Queen's Hotel, Leeds, on November 6. The chair was occupied by Mr. D. McMichael, President of the District Society, and the company included Professor A. J. Brown, M.A., D.PHIL., and Professor J. H. Richardson, M.A., PH.D. (Leeds University); Mr. Geoffrey A. N. Hirst, T.D., M.P.; Mr. Bertram Nelson (Vice-President, Society of Incorporated Accountants) and Mr. I. A. F. Craig (Secretary); Mr. Ralph Cleworth, Q.C. (Stipendiary Magistrate for Leeds); Mr. R. Crute (Town Clerk); Mr. J. W. Barnett (Chief Constable); Mr. J. H. Lawton

(Registrar, Leeds County Court); Mr. G. V. Williams (Principal Inspector of Taxes); and other representatives of professional bodies and education.

Professor A. J. Brown (Professor of Economics at Leeds University), in proposing the toast of the Society of Incorporated Accountants, said that having taught students who were entering the accountancy profession he was impressed by the competence which many of them displayed in the arts, which were beyond their professional studies. It was interesting to note that in a world in which for most men work was becoming easier, it was becoming harder for accountants and the allied professions.

Mr. Bertram Nelson (Vice-President of the Society of Incorporated Accountants) responded in the absence through indisposition of the President, Mr. C. Percy Barrowcliff. He said the forthcoming annual report would show that the past year had been an auspicious one, and they owed much to the work of the secretary, Mr. Craig. The Society had strengthened its association with other accountancy bodies and its educational work had been extended. They were indebted to Professor Bray for what he had done in the realm of research. He knew that if Mr. Barrowcliff had come he would have spoken about truth. He himself proposed to talk about error, and they were listening to an expert. It seemed to be fashionable today not to acknowledge a mistake, but how refreshing it would be if Members of Parliament and other public officials would sometimes do so. Government Departments preferred to do nothing rather than do something which might be wrong or regarded as wrong. It would be better to encourage experiment over a wide field and accept error occasionally. The Prayer Book reference to leaving undone the things which ought to have been done showed how serious were the sins of omission. We should be more critical of the failure to make experiments than of experiments which failed.

In the next few years there would be great opportunities for private enterprise, and it was unfortunate that nowadays the atmosphere was not more conducive to new ventures. Taxation had fallen heavily upon profits and there was no allowance for losses. The result was that money was not coming to the professions but going to the spivs. His hope was that British industry would venture on to the ice—it might break at times but more often than not it would hold.

Thanking Professor Brown for the kind and felicitous terms in which he had proposed the toast, Mr. Nelson said they were happy to have close associations with Leeds University and its help in the development of new techniques and new interests.

Mr. D. McMichael, President of the Yorkshire Society, proposed the toast of "The Guests and Kindred Professions." He paid tribute to the services rendered by Mr. Dresser, their former honorary secretary, and thought that Mr. Dresser's mantle had well fallen upon Mr. Brian C. Stead.

Expressing regret at the absence of Mr. Barrowcliff, he said he thought that his devotion to his duties as President had contributed to his indisposition.

They were glad to have as their guest Mr. J. W. Barnett, the Chief Constable of Leeds. It was a striking commentary on the British way of life that they could invite to social gatherings as a friend a high police official. In some countries, the police might be present uninvited, and possibly unknown, and for a much more sinister purpose than that of enjoying a good dinner.

Mr. Geoffrey A. N. Hirst, M.P. for Shipley, in responding, said he agreed with Mr. Nelson that some changes could be made in our taxation system without upsetting any Budget. He thought it was about time for the question of depreciation allowances to be put on a sound footing. Industry could produce what was required, but it must have up-to-date machinery if it were to compete successfully in foreign markets. He had long recognised our disadvantage in comparison with Germany. Our taxation system must allow for replacement of plant at replacement value and not at historical cost. No government was sincere that talked about the life blood of industry if it did not allow it to contain its own blood within its own body.

The confidence which business men placed in the profession of accountancy had increased with the years. It was a vital part of the structure of industry.

Mr. Ralph Cleworth, Q.C. (Leeds Stipendiary Magistrate) also responded. He recalled that he had often received valuable help from accountants, and those who had appeared before him as expert witnesses had invariably proved to be good witnesses.

RESEARCH LECTURE POSTPONED

Professor F. Sewell Bray, F.C.A., F.S.A.A., Stamp-Martin Professor of Accounting, has been compelled by pressure of work to postpone the public research lecture on "Accounting Dynamics," which was to have been given at Incorporated Accountants' Hall on December 7. The lecture will be delivered during the Lent term: we hope to announce the date later.

COUNCIL MEETING

OCTOBER 21, 1953

Present: Mr. C. Percy Barrowcliff (President), Mr. Bertram Nelson (Vice-President), Mr. John Ainsworth, Sir Frederick Alban, Mr. A. Stuart Allen, Mr. F. V. Arnold, Mr. Edward Baldry, Mr. R. Wilson Bartlett, Mr. C. V. Best, Mr. H. J. Bicker, Professor F. Sewell Bray, Mr. Andrew Brodie, Mr. Henry Brown, Mr. E. Cassleton Elliott, Mr. M. J. Faulks, Mr. W. H. Fox, Mr. Alexander Hannah, Mr. L. C. Hawkins, Mr. W. H. Higginbotham, Mr. Hugh O. Johnson, Sir Thomas Keens, Mr. W. H. Marsden, Mr. Festus Moffat, Mr. T. H. Nicholson, Mr. F. A. Prior, Miss P. E. M. Ridgway, Mr. P. G. S. Ritchie, Mr. W. G. A. Russell, Mr. R. E. Starkie, Mr. Joseph Stephenson, Mr. Percy Toothill, Mr. A. H. Walkey and Mr. Richard A. Witty, with the Secretary and the Deputy Secretary.

THE LATE SIR ARTHUR MIDDLETON

Members of the Council stood in silent tribute to the memory of Sir Arthur Middleton before adopting the following resolution:

> The Council of the Society of Incorporated Accountants and Auditors record with deep regret the sudden death on October 19 of Sir Arthur Middleton, Fellow, who had been a member of the Society since 1917 and a member of the Council since 1946. The Council recall with gratitude Sir Arthur's work for the Society and his distinguished record of public service, which culminated in his election as Chairman of the London County Council for the Coronation year.
>
> The Council extend their deepest sympathy to Lady Middleton in her great sorrow.

REPORTS OF COMMITTEES

The Council received the minutes of recent meetings of the Finance and General Purposes, Examination and Membership, Constitution of the Council, Disciplinary, Development, Taxation, Library, Eastbourne Conference, and Application Committees, of the ACCOUNTANCY Editorial Conference, of the Accountants' Joint Parliamentary Committee, and of the Committees of the South African Branches.

MEETINGS AND CONFERENCE, 1954

It was decided that the Society's annual general meeting be held at Incorporated Accountants' Hall on Monday, May 3, 1954, at 2.30 p.m., followed by the Benevolent Fund annual general meeting, and that the Branches and District Societies Conference be held at Eastbourne on Tuesday, June 1.

Dates of Council meetings to be held in 1954 were approved.

The Council approved a draft outline

rogramme for the Society's Conference Eastbourne from June 1 to 4, 1954.

NATIONALISED UNDERTAKINGS

n the recommendation of the Examinaon and Membership Committee it was ided to defer for a further six months a ision on the question whether selected ndidates from nationalised undertakings ould be admitted to the Society's examinaons.

FORM OF ARTICLES OF CLERKSHIP

revised form of articles of clerkship greement was approved.

ARREARS OF SUBSCRIPTION

he Council resolved that the names those members whose 1953 membership bscriptions still remained unpaid on ecember 15, 1953, should be struck off e membership roll.

EW EXAMINATION CENTRE—SOUTHAMPTON

he Council approved the recommendaon of the Examination and Membership ommittee that an examination centre e opened in Southampton as from the ay, 1954, examinations.

ESTATE DUTY ANOMALIES

he Council authorised the submission the Chancellor of the Exchequer of a emorandum on Estate Duty Anomalies epared by Professor Bray and approved the Taxation Committee. (The memondum is published as an inset with this ue of ACCOUNTANCY.)

MEMBERSHIP

he Council approved applications for romotion to Fellowship, for admission or reinstatement in membership of the ociety, and for registration as members retirement, subject to payment of the ppropriate entrance fees and subscriptions.

SIR JAMES MARTIN MEMORIAL EXHIBITION

he Council approved the award of the r James Martin Memorial Exhibition the May, 1953, Intermediate Examina- to Mr. Geoffrey Robert Norden, ticled to Mr. W. C. C. Smith, Fellow, ondon.

PRESIDENT'S VISIT TO AMSTERDAM

he President reported on his visit to msterdam, where he, accompanied by rs. Barrowcliff, represented the Society the Yearday of the Netherlands Institute Accountants on October 3, 1953.

RESIGNATION

he Council received a report that the signation from membership of Mr. ercival Haviland Smith, Associate, Cardiff, d been accepted.

FORFEITURE OF MEMBERSHIP

The Council resolved that the minute relating to the election to membership of Mervyn Gerald Smythe, Johannesburg, be rescinded.

DEATHS

The Council received with regret a report of the death of each of the following members: ANDERSON, Arthur (Associate), Sutton, Surrey; CHADWICK, Henry George (Associate), Crewe; DIX, Francis, B.COM. (Fellow), Isipingo Beach, Natal; DIX, Robert Alexander (Fellow), Pietermaritzburg; DUGDALE, George (Fellow), Norwich; DYKE, David Owen (Fellow), Shrewsbury; FIELD, John Edward (Fellow), London; GLEDHILL, Norman (Associate), Huddersfield; HALE, William Price, B.COM. (Associate), Coventry; HILL, Arthur Bertram (Associate), Wallasey; IRVING, Frederick William (Associate), Liverpool; JAMES, James Picton, M.B.E. (Associate), Swansea; JUDGE, William Arthur (Fellow), Skipton; LARDER, Charles (Associate), London; MILFORD, Charles Archibald (Fellow), Settle, Yorks.; MILNE, Robert (Fellow), Glasgow; OWLES, Cecil William (Associate), Harrow; PHILLIPS, William James, O.B.E. (Associate), London; SPARKES, George Ernest Ronald (Associate), Grimsby; THOMPSON, George Frederick (Associate), Hornsea, Yorks.; TRIST, Herbert James (Fellow), Sydney, N.S.W.

SCOTTISH THRIFT AND ENTERPRISE

MR. THOMAS JOHNSTON (CHAIRMAN OF THE North of Scotland Hydro Electricity Board and a former Secretary of State for Scotland) and Mr.C. Percy Barrowcliff (President of the Society of Incorporated Accountants) were guests of honour at a luncheon of the Scottish Branch of the Society in the St. Enoch Hotel, Glasgow, on October 27. Other guests were: Bailie W. W. Finlay (deputising for the Lord Provost of Glasgow, Mr. Thomas A. Kerr); Mr. John L. Somerville (President, Institute of Chartered Accountants of Scotland); Mr. W. MacFarlane Gray (Vice-President, Association of Certified and Corporate Accountants); Dr. Eric Thompson (Principal, Glasgow and West of Scotland Commercial College); and Mr. I. A. F. Craig (Secretary, Society of Incorporated Accountants).

Mr. Festus Moffat, President of the Scottish branch, presided.

Mr. C. Percy Barrowcliff (President of the Society of Incorporated Accountants) said that if the Government wished to preserve employment they must realise that their demands on current financial resources must be reduced to leave the savings margin required for capital formation.

Over the generations Scotland had brought thrift into the British character and make-up, and this great quality had meant that capital was accumulated year by year and used to create and extend business enterprises which had made Britain a leading commercial nation in the world. The craft and the work of the people were of little use without capital. Similarly capital was of little use without the work and craft of the people. Both were still vitally essential to each other.

Conveying greetings from the Council of the parent Society, Mr. Barrowcliff said that the Scottish Branch had a great tradition behind it and that the Society looked forward with confidence to its being kept alive by the zeal and enthusiasm of the present members.

The Society examined about 2,000 students every year, and there were more failures than successes. The standard of knowledge required was very high, and he said with great respect and responsibility that there could be no more exacting examinations. Only by passing the sternest examinations could Incorporated Accountants be fitted to face successfully the responsibilities confronting the accountancy profession by reason of its vital place in the national economy.

Technical knowledge must be backed by outstanding qualities of character, the fundamental qualities of complete independence, reliability and integrity, without which accountancy would have little substance as a profession, and certainly no place of any moment in the national economy. The fabric of commercial life was built up firmly on the foundation of the independence, reliability and integrity of the accountancy profession.

Mr. Thomas Johnston (Chairman of the North of Scotland Hydro Electricity Board and a former Secretary of State for Scotland) said that at no time in his long experience of public affairs had Scotland's economic prospects been so hopeful as they were today. Great strides were being made in the Forestry Commission's 50-year plan of afforestation. The salient facts were that it was possible to raise adequate timber supplies in Britain and that about half could be grown in Scotland. On the basis of German experience this would mean over 50 years' employment for 125,000 people in Scottish forests, a higher number than those presently employed in Scottish agriculture, coal-mining and shipbuilding.

Developments in agriculture had been greatly assisted by the carrying of hydro-electricity to crofts and farms. Tourism was capable of development and shipping services between the Clyde and New York must be restored.

Incorporated Accountants could play a great part in Scotland's recovery. When

they saw a Scottish native industry struggling for its life they should give it a helping hand.

In five or ten years' time, when Scotland ceased to be the poor relation, when she stood on her own feet and marketed her own resources, they would be able to share in the pride and glory of the achievement.

MEMORIAL SERVICE TO SIR ARTHUR MIDDLETON

A MEMORIAL SERVICE TO THE LATE SIR Arthur Middleton, F.S.A.A., J.P., chairman of the London County Council (whose death was reported on page 344 of our last issue), was held at St. Margaret's Church, Westminster, on October 27. The Rev. A. J. Wilcox officiated, and the Bishop of Kensington—who also represented the Bishop of London—gave an address.

The Queen was represented by Lord Mancroft, and the Home Secretary was represented by Mr. P. L. Taylor. The Lord Mayor of London and the Mayor of Westminster attended, and others in the congregation were :

Lady Middleton, Mr. Robert, Mr. C. F. and Mr. Percy Middleton (brothers), Mrs. Ewart Bishop and Mrs. H. Lewis (sisters), Mr. and Mrs. F. J. H. Hill, Mr. and Mrs. John Conoley, Mr. Oliver Middleton, Miss Mary Middleton, Miss Gillian Lewis.

As representatives of the L.C.C., the vice-chairman and Mr. Bolton, the deputy chairman and Mrs. Lawrence, the Leader of the Council and Mrs. Hayward, the Leader of the Opposition and Mrs. Kenyon, Mrs. Freda Corbet (Chief Whip), Dame Catherine Fulford (Chief Opposition Whip), the clerk of the council and Lady Roberts.

Lord Latham, Lord Ammon, Lord Aldenham (chairman, Westminster Bank), Mr. Herbert Morrison, M.P., the Hon. Sir Edward Cadogan (Vice-Lieutenant of the County of London), the Hon. Mrs. Trevor Rose, Sir Bracewell Smith, Sir Arthur Hutchinson (representing Under-Secretary of State, Home Office), Sir Thomas Sheepshanks (Permanent Secretary, Ministry of Housing and Local Government), Sir Harold Emmerson (Permanent Secretary, Ministry of Works), Air Chief Marshal Sir Roderic Hill (Vice-Chancellor, University of London), Sir Alexander Maxwell (chairman, British Travel and Holidays Association), the Dowager Lady Hillingdon (representing W.V.S.), Sir Leslie Plummer, M.P., Sir Robert Tasker, Colonel Sir Louis Gluckstein, Q.C., Sir Robert and Lady Mayer, Sir Allen Daley, Sir Sidney Fox, Sir Parker Morris, Lady Pepler, Lieutenant-General Sir Arthur Dowler (secretary, King George VI Memorial Fund), Sir Clifford Radcliffe.

The chairman of Middlesex County Council, Mr. Henry Brooke, M.P., Mr. Arthur Colegate, M.P., Mr. W. Fienburgh, M.P., Mr. R. S. Taylor (National Health Service), Brigadier G. M. B. Portman (chairman, Territorial and Auxiliary Forces Association of the County of London), Mr. John Cliff (London Transport Executive), Mr. William Girling (chairman, Metropolitan Water Board), Mr. Leslie Ford (general manager, Port of London Authority), Mr. Claude Lucas (chairman, Hospital for Sick Children), Mr. L. F. Cheyney (secretary, Institute of Municipal Treasurers and Accountants), Mr. A. de V. Leigh (secretary, London Chamber of Commerce), Mr. Samuel Allsopp (chairman, Hops Marketing Board), Mr. R. F. E. Howard-Hodges (Royal Society for the Prevention of Accidents), Mr. E. F. Bray (Bankers Trust Company), Major-General Donald Wilson-Haffenden (Boys' Brigade), Mr. R. M. Howe (Deputy Commissioner of Police for Metropolis), Captain S. P. Griffiths (representing Commissioner of City Police), Mr. Anthony Hawke (chairman, Court of Quarter Sessions), Mr. H. J. A. Glanville (chairman of standing joint committee, Quarter Sessions and Court), Mr. W. S. Williams (vice-chairman, Arts Council), Mayors of Metropolitan boroughs, and representatives of other public and professional organisations.

The Society of Incorporated Accountants was represented (in the unavoidable absence of the President and Secretary) by the Vice-President, Mr. Bertram Nelson, and by the Deputy Secretary, Mr. C. Evan-Jones. In addition the following members of the Council of the Society were present : Mr. Edward Baldry, Mr. R. Wilson Bartlett, Mr. E. Cassleton Elliott and Mr. L. C. Hawkins.

INCORPORATED ACCOUNTANTS' LODGE

THE INSTALLATION MEETING WAS HELD ON October 27 at Freemasons' Hall, London, W.C.2. W.Bro. W. H. C. Wayte installed his successor, Bro. J. A. Jackson, as W.M.

W.Bro. Jackson invested the following officers: Bro. J. C. Chaumeton, S.W.; W.Bro. W. F. Edwards, J.W.; W.Bro. W. J. Crafter, Treasurer; W.Bro. A. S. Darr, Secretary; W.Bro. E. J. P. Garratt, D.C.; Bro. E. B. Trimmer, S.D.; W.Bro. E. J. Hakim, J.D.; W.Bro. A. V. Hussey, A.D.C.; W.Bro. A. A. Garrett, Almoner; W.Bro. G. F. D. Rice, I.G.; Bros. H. L. Brown, F. R. Marshall, A. Armitt, F. A. Roberts, Stewards; W.Bro. A. C. Chitty, Tyler. A large number of guests were present.

The Secretary is Mr. A. S. Darr, 3 New Broad Street, London, E.C.2.

DISTRICT SOCIETIES

NEWCASTLE UPON TYNE

THE FIRST MEETING OF THE NEWCASTLE AND District Luncheon Club was held at the Eldon Grill, Newcastle, on October 28.

The club was fortunate in having as its first speaker Mr. C. Percy Barrowcliff, President of the Society of Incorporated Accountants, who gave an interesting talk on the development of accountancy throughout the world. He stressed the importance of British accountancy maintaining its leadership by constant alertness. There was need for much thought and it was not enough to be satisfied with old concepts without being reassured by periodic review and challenge that they met ever-changing conditions. The Incorporated Accountants' Research Committee, led by the Stamp-Martin Professor of Accounting, was the Society's answer to this problem and it was up to members to support Professor Bray in this important work. The aim of every accountant, be he in commerce, civil service or practice, should be to produce work of the highest standard.

The second meeting was held on November 26, when the speaker was Mr. T. Wilkinson, Chairman of the Newcastle Exchange. It is hoped to hold further meetings on the last Thursday of each month (December excepted).

The library facilities at 52 Grainger Street, Newcastle, are not now available, all the books having been transferred to the Commercial and Technical Department of the Central Library, New Bridge Street, Newcastle. Opening hours are 9 a.m. to 9 p.m.

It must be noted that the Central Library is for reference purposes only and that books cannot be taken out by members or students.

NORTH STAFFORDSHIRE

THE ANNUAL MEETING, PRECEDED BY A supper, was held at the Grand Hotel, Hanley, on October 16.

The following officers were elected:

President, Mr. E. Downward; Vice-Presidents, Mr. F. S. Ralphs and Mr. R. A. Hamilton; Hon. Treasurer, Mr. L. Goodwin; Hon. Secretary, Mr. R. A. Hamilton; Hon. Auditor, Mr. F. E. Cheetham; Committee, Mr. A. Brodie, Mr. W. S. Dalby, Mr. L. G. Fetzer, Mr. W. A. Follows, Mr. T. W. Porter, Mr. E. S. Stoddard, Mr. N. S. Stoddart, Mr. A. P. Walker, Mr. A. G. B. Smith, Mr. C. A. Tavernor, Mr. F. A. Teasdale, Mr. T. B. Green, Mr. J. P. Elliott, Mr. K. V. Longbottom, Mr, A. H. Mountford, and Mr. E. R. Hall.

NEW EXAMINATION CENTRE

COMMENCING WITH THE MAY, 1954, examinations, a new examination centre will be established in Southampton.

EVENTS OF THE MONTH

December 1.—*Leeds:* "Finance Act, 1953," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A. Jacomelli's Restaurant, Boar Lane, at 6.15 p.m.

December 2.—*Dublin:* Students' dance.

December 3.—*Cardiff:* "Standard Costing and Budgetary Control," by Mr. W. W. Stanley, A.S.A.A. Students' meeting. Temple of Peace and Health, at 6.45 p.m.

Newcastle upon Tyne: "Accounting in an Engineering Works," by Mr. D. P. Walton, A.C.A. (A visit to C. A. Parsons' new offices.)

Portsmouth: Machine Accounting: demonstration, etc., by National Cash Register Co. Ltd. British Electricity Authority Conference Room, High Street, at 6.30 p.m.

December 4.—*Birmingham:* "Some Aspects of Company Accounts," by Mr. I. Hicks, B.COM., A.C.A. The Law Library, Temple Street, at 6.15 p.m.

Brighton: "Financial Statements," by Mr. A. C. Simmonds, F.S.A.A. Students' meeting. Royal Pavilion, at 7 p.m.

Cambridge: "Mercantile Law," by Mr. R. D. Penfold, Barrister-at-Law. The Shire Hall, at 6.30 p.m.

Cardiff: "Finance for Industry," by Mr. H. G. Hodder, Manager, Intelligence Department, National Provincial Bank Ltd. Park Hotel, at 7 p.m.

Hull: "Estate Duties (with particular reference to accountancy examinations and the Intestates Act, 1952)," by Dr. G. G. Thomas, PH.D., F.S.A.A., A.C.A. Students' meeting. The Church Institute, Albion Street, at 6.15 p.m.

Manchester: "Income Tax," by Mr. N. D. B. Robinson, M.B.E., A.S.A.A. Intermediate students. Incorporated Accountants' Hall, 90 Deansgate, at 6.30 p.m.

Waterford: "Executors and Trustees," by Mr. M. W. Keller. Students' meeting. Offices of Messrs. W. A. Deevy & Co., at 8 p.m.

December 8.—*Brighton:* "Company Law," by Mr. R. D. Penfold, Barrister-at-Law. Royal Pavilion, at 7 p.m.

Chester: "Budgetary Control and Standard Costs," by Mr. R. G. Hall. Bowling Green Hotel, Brook Street, at 7 p.m.

Dublin: Debate—students with the senior body. Jury's Hotel, Dame Street, at 6.15 p.m.

Taunton: "Costing," by Mr. J. L. Bayliffe, A.S.A.A., A.T.I.I. Castle Hotel, at 6.30 p.m.

December 10.—*Middlesbrough:* "Group Accounts," by Mr. D. J. Bogie, PH.D., C.A. Cafe Royal, Linthorpe Road, at 6.30 p.m.

Newport, Mon.: "P.A.Y.E." by Mr. J. E. Thompson (Newport 1st District P.A.Y.E. Section), supported by Mr. H. V. Lloyd, Inspector of Taxes. Students' meeting. Monmouth and South Wales Building Society, at 6.30 p.m.

Nottingham: "Trust Accounts and Distributions upon Intestacy," by Mr. J. Linahan, A.S.A.A. Reform Club, Victoria Street, at 6.30 p.m.

Oxford: "Public Issues and Shares of No-Par-Value," by Mr. F. R. Althaus. Students' meeting. George Restaurant, George Street, at 6.30 p.m.

Wolverhampton: "Profits Tax Up to Date," by Mr. L. A. Hall, A.C.A., A.S.A.A. Star and Garter Royal Hotel, at 6.15 p.m.

December 11.—*Birmingham:* Debate—"That life held more opportunities fifty years ago," with members of the Birmingham Chartered Accountants Students' Society. Law Library, Temple Street, at 6.15 p.m.

Bradford: "Financial Statements," by Mr. A. C. Simmonds, F.S.A.A. Liberal Club, Bank Street, at 6.15 p.m.

Bristol: "Hints on (1) Investigations; (2) Incomplete Records," by Mr. R. Glynne Williams, F.C.A., F.T.I.I. Royal Hotel, College Green, at 6.30 p.m.

Hanley: "Economic Prospects," by Mr. A. R. Ilersic, B.COM. Town Hall, at 6.30 p.m.

Hull: Hull Professional Students' Societies fourth annual dance. Guildhall.

Leicester: "Investigations," by Mr. A. R. English, A.C.A. Students' meeting. Turkey Café, Granby Street, at 6 p.m.

Manchester: "Some Selected Tax Cases," by Mr. F. A. Gahan, H.M. Inspector of Taxes. Chartered Accountants' Hall, 60, Spring Gardens, at 6.30 p.m.

Manchester: "Income Tax," by Mr. N. D. B. Robinson, M.B.E., A.S.A.A. Intermediate students' meeting. Incorporated Accountants' Hall, at 6.30 p.m.

Newcastle upon Tyne: "Group Accounts," by Mr. D. J. Bogie, PH.D., C.A. The Library, 52 Grainger Street, at 6.15 p.m.

Norwich: Discusion — "Practical Problems including matters for District Society's Conference." Royal Hotel, at 7 p.m.

December 14.—*Coventry:* "The Stock Exchange," by Mr. Gilbert, of the Birmingham Stock Exchange. Craven Arms, High Street, at 6.30 p.m.

Leicester: "Profits Tax," by Mr. Anthony P. L. Barber, M.P., Barrister-at-Law. Bell Hotel, Humberstone Gate, at 6 p.m.

Sheffield: "The Office of Magistrate," by Mr. Leslie M. Pugh. Law Society Rooms, Campo Lane, at 6 p.m.

December 15.—*Dublin:* "An Accountant in Industry," by Mr. E. D. Reynolds, A.C.A. Students' meeting. Jury's Hotel, Dame Street, at 6.15 p.m.

Dudley: "Estate Duty," by Mr. R. Glynne Williams, F.C.A. Dudley and Staffordshire Technical College, Broadway, at 7 p.m.

December 16.—*Carlisle:* Dinner dance. Silver Grill.

Nottingham: "Brains Trust." Panel: Mr. J. G. S. Abbott, H.M. Senior Inspector of Taxes, Mr. W. A. Boot, Solicitor, and two Incorporated Accountants. Reform Club. Victoria Street, at 6.30 p.m.

Waterford: Debate. Students' meeting. Granville Hotel, at 8 p.m.

December 17.—*Bradford:* Students' Section dance. Connaught Rooms.

December 18.—*Belfast:* Students' Annual Ball. Belfast Castle.

Birmingham: Private exhibition of accounting and calculating machines, by Burroughs Adding Machine Ltd. Ruskin Chambers, 191 Corporation Street, at 6.15 p.m.

Manchester: Meeting with Mr. David Walker, M.A. to enable students to express views upon detailed lectures. Estate Exchange, Fountain Street, at 6.30 p.m.

December 22.—*Leicester:* Students' dance. Oriental Hall.

January 5.—*Bournemouth:* "Topical Economic Problems," by Mr. A. R. Ilersic. St. Peter's Hall, Hinton Road, at 6.30 p.m.

Leeds: Joint Meeting with Inspector of Taxes Association. Jacomelli's Restaurant, Boar Lane, at 6 p.m.

January 6.—*Belfast:* "Figures that Work": Hollerith sound film. Students' meeting. 13 Donegall Square West.

Southampton: "Topical Economic Problems," by Mr. A. R. Ilersic. Polygon Hotel, at 6.30 p.m.

January 7.—*Coventry:* Tour of Sterling Metals Ltd. for students.

Portsmouth: "Topical Economic Problems," by Mr. A. R. Ilersic. Central Library, at 6.30 p.m.

January 8.—*Birmingham:* "Exchange Control," by Mr. W. E. Dawson, A.I.B., M.I.EX., of Barclays Bank Ltd. Law Library, Temple Street, at 6.15 p.m.

Bristol: "Liquidations," by Mr. A. L. Mugridge, B.COMM., A.C.I.S. Royal Hotel, College Green, at 6.30 p.m.

Hull: "Consolidated Company Accounts," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A. Students' meeting. Church Institute, Albion Street, at 6.15 p.m.

Leeds: Dinner dance. Queen's Hotel, at 7.30 p.m.

Leicester: "Estate Duty," by Mr. Anthony P. L. Barber, M.P., Barrister-at-Law. Students' meeting. Turkey Café, Granby Street, at 6 p.m.

Manchester: "Economics," by Mr. David Walker, M.A. Students' meeting. Incorporated Accountants' Hall, at 6 p.m.

PERSONAL NOTES

Councillor E. Ewart Pearce, M.B.E., F.S.A.A., J.P., has been appointed deputy chairman of the Finance Committee of Cardiff City Council. Councillor Pearce is

a past-President of the Incorporated Accountants' South Wales and Monmouthshire District Society.

Mr. Kenneth W. Jones, A.C.A., A.S.A.A., has commenced to practise under the style of K. W. Jones & Co., Chartered and Incorporated Accountants, at 25 Kirkland Avenue, Barkingside, Ilford, Essex.

Mr. L. R. Turner, A.S.A.A., has been appointed group chief accountant of Sheepbridge Engineering, Ltd., Chesterfield. He retains his position as assistant secretary.

Messrs. Crick and Bussell, Incorporated Accountants, London, E.C.2, have admitted as a partner Mr. Kenneth W. Johnson, LL.B., A.S.A.A., A.C.I.S.

Mr. Arnold M. Clayman, Incorporated Accountant, has commenced public practice at 515 Commercial Road, London, E.1.

Mr. John C. Pearce, A.S.A.A., has commenced public practice at 32 Temple Chambers, Temple Avenue, London, E.C.4, under the style of Pearce & Co., Incorporated Accountants.

Mr. W. J. Kimpton, A.S.A.A., has been appointed Principal Accountant to the Admiralty.

Mr. M. Sylvester, A.S.A.A., secretary of the Dental Manufacturing Co., Ltd., Blackpool, has been appointed a director of that company's subsidiaries, Dental Rentals Ltd. and the Dental Manufacturing Company (Sales), Ltd.

Mr. N. Lisbon, F.S.A.A., of Nyman Lisbon and Co., announces that Mr. I. B. Paul, A.C.A., who has been associated with him for some time, has joined him as a partner in his firm of Nyman Lisbon & Co., 53 Queen Anne Street, London, W.1.

Mr. J. A. Ditton, A.S.A.A., has been appointed Secretary to the Swedish Pulp Company (London), Ltd.

Mr. Berkeley Hall, Incorporated Accountant, Shepton Mallet, has taken into partnership Mr. M. J. Reeves, A.S.A.A., who was articled to him and has been on his staff for eleven years. They are practising under the style of Berkeley Hall and Co., Incorporated Accountants.

REMOVALS

Messrs. Gough, Wright, Smith & Co. have removed to 24 Lombard Street, West Bromwich.

Messrs. J. L. Bayliffe & Co., Incorporated Accountants, advise that their offices are now at 2 The Crescent, Taunton.

Mr. A. S. Donald, F.C.A., A.S.A.A., practising under the firm name of Donald & Co., has moved to Ellerslie Chambers, Hinton Road, Bournemouth.

Messrs. Phelan & Prescott announce a change of address to 1 & 2 Eden Quay, Dublin, C.3.

Messrs. Frank A. Reeder & Co., Incorporated Accountants, have removed to Alliance House, Caxton Street, Westminster, London, S.W.1.

Mr. S. R. Sen, M.A., A.S.A.A., A.C.A. (INDIA), practising as S. R. Sen & Co., has moved his office to 13 Jagannath Datta Lane, Calcutta, 9.

Messrs. Walter J. Edwards & Co., Chartered Accountants, have changed their address to Lloyds Bank Chambers, Park Street, Walsall, Staffs.

Messrs. Greenhill, Pate & Co., Incorporated Accountants, announce that their address is now 21 Alcestor Road South, King's Heath, Birmingham, 14.

OBITUARY

William Price Hale

We record with regret that Mr. W. P. Hale, B.COM., F.C.A., A.S.A.A., died suddenly on September 25, at the age of 49. Mr. Hale had been a partner since 1931 in Messrs. Daffern and Co., Coventry. He was admitted to membership of the Institute of Chartered Accountants in 1928, and was a past chairman of the Coventry branch of the Birmingham and District Society of Chartered Accountants. He became a member of the Society of Incorporated Accountants in 1932.

For three years Mr. Hale was a member of the borough council of Leamington Spa, and for two years chairman of the Finance Committee. He resigned from the council in May 1953.

He was a governor of Studley Agricultural College and of the Kingsley School, Leamington, and a member of St. John's Lodge of Freemasons, Coventry.

Robert Milne

With deep regret we record the death on September 6 of Mr. Robert Milne, F.S.A.A. He became a member of the Society in 1908, and had been in practice for many years in Glasgow, latterly under the style of Robert Milne & Co. Scottish members recall with gratitude his services as a member of the Branch Council from 1937 to 1949.

William James Phillips

We regret to announce the death on September 14 of Mr. W. J. Phillips, O.B.E., A.S.A.A., Principal Accountant of the Admiralty. He had been a member of the Society since 1917.

After a period in professional service, Mr. Phillips entered the Accountant-General's Department at the Admiralty in 1915; he was appointed Deputy Principal Assistant in 1939 and Principal Accountant in 1951. He was seconded in 1924 for special duty at the Royal Mint, to supervise and assist in the installation of a new costing system.

His services to the Admiralty were recognised by the award of the M.B.E. in 1929 and of the O.B.E. in the Birthday Honours of 1952.

Alan Wood

We have received with regret news of the sudden death on November 2 of Mr. Alan Wood, F.S.A.A., a partner in Messrs. H. Lomax & Co., Incorporated Accountants, Manchester. Mr. Wood became a member of the Society of Incorporated Accountants in 1930, after serving his articles with Mr. H. Lomax, F.S.A.A., and shortly afterwards became a partner in the firm.

Rateable Values

The first comprehensive analysis of rateable values in England and Wales has been published by the Institute of Municipal Treasurers in conjunction with the Society of County Treasurers (*Analysis of Rateable Values of England and Wales as at April 1, 1952*, available from either the Institute or the Society). The analysis will be invaluable in studying current problems of local government finance, including the effects of revaluation under the Local Government Act, 1948; the argument about derating; and the consequences of the Government's policy on house rents. Thus, throughout the country (excluding Hampshire) there are 4¼ million domestic hereditarints whose rateable value does not exceed £10 and 4¾ million whose rateable value lies between £11 and £20. The policy of the Government would mean, in the light of these figures, that the permitted increase in rents could be no more than £8 a year for 31·7 per cent. of houses in England and Wales and no more than £16 a year in the country and £20 in London for a further 34·1 per cent. of houses. Again, total rateable value for all authorities (excluding Hampshire) is £339 million, of which 59·5 per cent. is on domestic premises, 20·2 per cent. on commercial premises and only 4·0 per cent. on industrial premises. In addition to this return, a detailed tabulation of the county boroughs and London has been made by the Institute (price 5s., post free, from the Institute), and a similar tabulation of the counties (excluding Hampshire) by the Society (price 7s. 6d., post free, from the Society).

The mention in our November issue of OFFICE ADMINISTRATIVE PRACTICES, published by Office Management Association Ltd., should have stated that the price is 12s. 6d. net.

Classified Advertisements

Two shillings and sixpence per line (average eight words). Minimum ten shillings. Box numbers one shilling extra.

Replies to Box Number advertisements should be addressed Box No. . . ., c/o ACCOUNTANCY, *Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2, unless otherwise stated. It is requested that the Box Number be also placed at the bottom left-hand corner of the envelope.*

APPOINTMENTS VACANT

THE SOCIETY'S APPOINTMENTS REGISTER

IT is desired to bring the Society's Appointments Register to the notice of all members and employers who have vacancies for Incorporated Accountants on their staffs. No fees are payable. All inquiries should be addressed to the Secretary, The Society of Incorporated Accountants, Incorporated Accountants' Hall, Temple Place, Victoria Embankment, W.C.2. Tel.: Temple Bar 8822.

CENTRAL ELECTRICITY BOARD
FEDERATION OF MALAYA

Applications are invited for the position of :

DEPUTY GENERAL MANAGER AND COMPTROLLER

THE deputy general manager and comptroller will be responsible to the general manager for the formulation and implementation of the Board's financial policy. Duties would include attendance at Board meetings in an advisory capacity. The appointment is a new one and in view of the rapid expansion of the Board's undertaking offers considerable scope to an energetic and capable man.

The salary and allowances attached to the post are commensurate with the responsibilities involved and will commence at approximately £2,700 per annum. Additional allowances up to about £560 a year would be payable to a married man with children. Malayan taxation is at relatively low rates. Free passages and liberal leave on full salary would be provided.

Applicants for the post should be between 35 and 45 years, should hold a recognised professional accountancy qualification and should have had responsible executive experience with either an electricity authority or undertaking or a large scale commercial undertaking.

Write to the CROWN AGENTS FOR THE COLONIES, 4 Millbank, London, S.W.1. State age, name in block letters, full qualifications and experience and quote M3C/34025/AD.

COSTING.—Many advertised positions demand a thorough knowledge of modern costing and budgetary control. Enlarge your opportunities by qualifying through the examinations of the Institute of Cost and Works Accountants. Single-subject Courses also available. Obtain free prospectus from the leading postal training centre—5,500 complete I.C.W.A. Passes.
THE SCHOOL OF ACCOUNTANCY
178 Regent House, 6 Norfolk Street, Strand, London, W.C.2, and at Glasgow.

SOUTHERN RHODESIA GOVERNMENT
VACANCIES FOR QUALIFIED ACCOUNTANTS

DUE to continued expansion, the Income Tax Department has several permanent pensionable vacancies, offering excellent career prospects, for Chartered/Incorporated accountants up to 35 years of age.

Starting salaries vary between £804-£984 per annum on a scale rising to £1,482 per annum with prospects to £2,442 per annum. Marriage Allowance, £50 per annum. Children's £60 per annum first, £24 per annum each other dependant child also payable.

Application forms and full details from the SECRETARY, Rhodesia House, 429 Strand, London, W.C.2.

A. P. GARDNER & CO., have vacancies in their Vancouver office for young Chartered or Incorporated Accountants. Good opportunities for advancement, particularly if willing to commence in a junior capacity in order to familiarise yourself with Canadian conditions. —Write Airmail, sending photo and giving full details to A. P. GARDNER & Co., Chartered Accountants, 1118 Melville Street, Vancouver 5, Canada.

ACCOUNTANT required by the NIGERIA GOVERNMENT Treasury Department for one tour of 18 to 24 months in first instance. Salary, etc., according to experience in scale £807 rising to £1,631 a year. Gratuity £100 or £150 a year according to salary. Outfit allowance £60. Free passages for the officer, his wife and assistance towards cost of children's passages or their maintenance in this country. Candidates between 23 and 35 should be members of a recognised body of professional accountants or have good experience with a firm of Accountants, in a Bank or Accounts Branch of a Government Department, Municipality or Public Company. Write to the CROWN AGENTS, 4 Millbank, London, S.W.1. State age, name in block letters, full qualifications and experience and quote M3C/33879/AD.

CHIEF Accountant required for rapidly expanding group of manufacturing companies. Head Office Chelmsford. Commencing salary £1,000. Commercial experience desirable but not essential. —Apply Box No. 706, c/o ACCOUNTANCY.

CITY Chartered Accountants with wide and varied practice require audit assistants. Starting salary £500, or according to experience. Good opportunities for advancement. Pension scheme.—Box No. 707, c/o ACCOUNTANCY.

COMPANY SECRETARY. Public company, electrical industry, seeks experienced Secretary, preferably with ACCOUNTANCY QUALIFICATIONS. London area. Salary £2,000 p.a.—Write qualifications, experience, age, etc. in confidence to Box No. 709, c/o ACCOUNTANCY.

IMPORTANT group of industrial companies with headquarters in London area requires senior assistant for financial control department. Substantial salary and good prospects of advancement for a man between 32 and 42 years who has successfully held a responsible position of this nature. State age, qualifications, experience, also present salary and employment.—Reply to Box No. 698, quoting reference CFA/2, c/o ACCOUNTANCY.

QUALIFIED Accountant required as Internal Auditor by leading group of retail companies with Head Office in Manchester. First-class professional experience and willingness to travel essential. Age not over 35. Also unqualified assistant required with professional experience, age not over 30. Applicants should state age, education, qualifications, experience and salary required. Box No. 704, c/o ACCOUNTANCY.

QUALIFIED ACCOUNTANT Single and under 30 required for Colombo office of British Merchant Firm. Remuneration according to age and experience, including Bonus Scheme initially and participation in Profits later. Pension Scheme and Staff Provident Fund. Paid home leaves with free passages. Box. No. 703, c/o ACCOUNTANCY.

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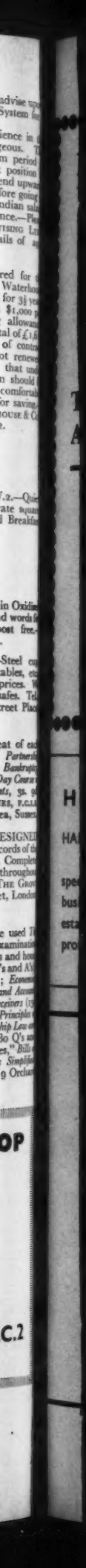

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Supplem

Supplement to ACCOUNTANCY, December, 1953

THE SOCIETY OF INCORPORATED ACCOUNTANTS AND AUDITORS

Memorandum prepared for the Chancellor's review of

ESTATE DUTY ANOMALIES

particularly in regard to Section 55 of the Finance Act, 1940

1953

Estate Duty Anomalies

In the course of a debate in the House of Commons on June 23, 1953, on the subject of the incidence of Estate Duty on family businesses, the Economic Secretary to the Treasury stated that the Chancellor of the Exchequer had started a review of anomalies arising under the Estate Duty law, particularly in regard to Section 55 of the Finance Act, 1940. The Economic Secretary said that the Chancellor " does not propose to appoint a committee for the purpose. He proposes to conduct this review himself with the assistance of his official advisers, but, undoubtedly, recourse will be had to outside independent experts who are able to provide helpful information on the subject, and my Right Hon. Friend has asked me to say that he would be very glad any time if Hon. Members who are interested in this problem and have further practical information to offer will furnish him with it." In response to an invitation from the Board of Inland Revenue to the effect that the Board would be glad to receive any information or suggestions about estate duty anomalies, particularly in regard to Section 55, which the Society of Incorporated Accountants might wish to offer in connection with the Chancellor's review, the letter and memorandum set out below were sent to the Estate Duty Office on November 4.

DEAR SIR,—(1) I have pleasure in communicating the information and suggestions about estate duty anomalies, particularly in regard to Section 55 of the Finance Act, 1940, which the Society of Incorporated Accountants wishes to submit for consideration in connection with the Chancellor's review of such anomalies.

(2) The main purpose of the legislation which culminated in Section 55 of the Finance Act, 1940, and the other provisions of Part IV of that Act, was to prevent the evasion of estate duty which may be effected by transferring assets from private individuals to companies. As drawn up and administered, Section 55 applies to shares in and debentures of "family" businesses a basis of valuation different from that applying to other securities. The section is having an adverse effect on legitimate family businesses, chiefly of small or medium size, although such businesses have hitherto been part of the strength of the national economy.

This is the main conclusion which is forced upon us by the instances given by our members and District Societies.

(3) The remedy which we propose is that Section 55 should be amended in the following way:

After sub-section (*c*) in sub-section (1), and before the words "the principal value of the shares or debentures, etc.," there should be added words to the following effect:

"and

(*d*) it is proved to the satisfaction of (a special fact-finding Commission) that the main purpose or one of the main purposes of forming or acquiring control of the company was the avoidance of liability to estate duty, the (Commissioners) may direct that (the principal value of the shares or debentures, etc.)"

The scope and functions of such a commission are further discussed in Section D of our memorandum, below.

A precedent for an enactment of this type is provided by Section 18 of the *Finance Act, 1936.*

We think that such a direction should be subject to appeal to the Board of Referees, whose decision on issues of fact upon which there is evidence before them should be final.

It would follow from this that in all cases where shares in and debentures of a company pass on a death, and a direction to apply Section 55 had not been made, because it had not been established that avoidance of estate duty was one of the main objects of forming or acquiring control of the company, the normal basis of valuation of the shares and debentures would apply.

(4) If our principal recommendation were adopted, we think that the adverse effects upon legitimate business which Section 55 is at present producing would disappear, and many of the detailed suggestions and criticisms which we make below would be rendered unnecessary.

Nevertheless, in the event of its not being adopted, we submit for consideration a number of detailed criticisms and suggestions, which have been put to us by our members and District Societies, grouped thus:

A. *Control.*

Criticisms and suggestions affecting the existing provisions of Sections 55-59 of the Finance Act, 1940 (as amended by the Finance Act, 1946), and which would, if adopted, lead to amending legislation, principally with regard to the meaning of "control" (omitting valuation (Section 55(2)).

B. *Basis of Valuation.*

Criticisms and suggestions regarding the basis of valuation laid down in the 1940 Act, Section 55(2). Most of these would necessitate amending legislation. Some might require only a change in Revenue practice.

C. *Financing the Payment of Duty.*

Suggestions designed to facilitate the financing and payment of estate duty on the shares and debentures of controlled companies, based on a consideration of the practical difficulties. Amending legislation would be required in all cases where suggestions were adopted.

D. *Administration.*

This is confined to a suggestion that a special tribunal to direct when Section 55 should be applied should be set up. The tribunal should also have power to hear and determine any dispute concerning the valuation of the assets or shares or debentures of companies for estate duty purposes.

E. *Other Anomalies.*

Amending legislation would be necessary to remove them.

These criticisms and suggestions are attached to this letter.

Yours faithfully,

I. A. F. CRAIG,

Secretary, Society of Incorporated Accountants.

C. O. Harding, Esq.,
Estate Duty Office,
Minford House,
Rockley Road,
London, W.14.

MEMORANDUM

SECTION A

(1) General criticism of the conception of " control " in the Act.

It is submitted that the ideas underlying Section 55 are fallacious because of a failure to distinguish between two types of control, control over the conduct of the company's business and control over the disposal of its assets.

Unless the deceased member held at least 75 per cent. of the voting power and complete control over the board of directors, he cannot by himself procure the winding-up of the company and is not therefore in a position to control the disposal of the company's assets (although the resultant valuation is on an assets basis).

It is suggested that the " control " provisions should not apply unless the deceased member had 75 per cent. of the voting power.

(2) Modification of the controlling persons or group of persons.

The provisions should be modified so that any person of, say, 25 years of age or upwards, irrespective of his or her relationship to the deceased, who has held shares in the company, for, say, at least five years prior to the date of death, or who has genuinely acquired the shares for a reasonable valuable consideration should be considered to be an independent shareholder.

(3) Section 55(1)(b), the more than " half the dividends and interest " test.

This provides that valuation by reference to the assets of the company is to be made where dividends declared:

(i) for any period falling wholly or partly within the five years preceding death, or
(ii) at any time within the five years but not for any particular period,

together with interest on debentures which accrued due in that period are, as to more than one-half of the aggregate, treated under Sections 47 and 48 as " benefits accruing to the deceased " (or would be so treated if he had made a transfer of property to the company).

The following point has been raised:

Anomalies can result under this sub-section where preference shares are in issue.

The following exemplifies what is in mind:

	Ord. Shares held	*Pref. Shares held*
A	1,000	100
B	2,000	—
C	1,500	—
	4,500	100

If no dividend has ever been declared on the ordinary shares, but the preference dividend has been regularly paid, the receipt by A of more than half the dividends declared by the company appears to entitle the Revenue to demand the valuation of his shares on an " assets " basis, despite the fact that B and C, although owning considerably more (ordinary) shares, would not be so treated.

(4) Section 55(1)(c), the " beneficial interest in possession of half or more of the nominal share capital or debentures in issue " test.

This provides that the net assets basis of valuation is to apply where the deceased had at any time during the five years preceding death a beneficial interest in possession in shares or debentures or both, representing one-half or more of the aggregate nominal amount in issue, *and* no one other person had at that time the control of the company.

The following points have been raised:

(*a*) *Again, anomalies can result where preference shares are in issue.*

Take the following example:

	Ord. Shares held	*Pref. Shares held*
A	1,000	3,000
B	2,000	—
C	1,500	—
	4,500	3,000

A, B and C are all ordinary directors with no plenipotentiary powers—neither B nor C controls the company. The preference dividend has been regularly paid.

Upon the death of A, because no one other person has control of the company, and by reason of his aggregate holding of more than one-half of the issued share capital (contributed to by 3,000 preference shares which may or may not carry any voting rights), his holding of ordinary shares falls to be valued on an " assets " basis.

In other words, although in possession of the smallest holding of ordinary shares, the addition thereto of 3,000 preference shares, which he may have acquired fortuitously, brings his holding within the provision of Section 55, which would not be so in respect of the considerably larger holding of ordinary shares of B and C.

(*b*) *Two exactly equal interests.*

Some criticism has been expressed to the Society of the provision whereby, when two persons own or are interested in exactly a half each of the share capital and debentures in issue, and their other rights are exactly equal, so that neither of them controls the company to the exclusion of the other, both are deemed to be in control, and the shares of both of them fall to be valued on an " assets " basis.

It has been suggested that Section 55(1)(c) be amended so that it applies only to a person interested in *more* than 50 per cent. of the capital and debentures.

(*c*) " . . . *a beneficial interest in possession in . . . one-half or more . . .* " *Section 55(1)(c) and Section 58(3).*

In some cases, the interpretation and application of these words causes difficulty.

Some help is obtained from *Section 58(3)*, which is to the effect that " A person shall be deemed to have . . . had any . . . interest, the . . . having whereof by him is relevant for the purposes of this Part of this Act, if any of the following conditions are satisfied in relation thereto, that is

to say—" (and then follow five sets of circumstances, (*a*) to (*e*)).

But it has been remarked that Section 58(3) is obscurely worded, and it does not always clarify the issues.

Take the following actual case:

A held 9,464 shares, exactly half, out of a total of 18,928 ordinary shares in issue.

A died on May 18, 1934. He left his shares to trustees in trusts to pay the income equally to two daughters and one son for their respective lives, with ultimate remainders of capital.

The son died on November 8, 1935. He held 2,032 ordinary shares in his own right. He left them to trustees upon trust to pay the income to the same two daughters (his sisters) for their respective lives, with the same ultimate remainders as for the father's estate.

The trustees of both estates were the same, so that, on the son's death, these trustees held approximately 60 per cent. of the issued ordinary capital, and paid the income arising in equal shares to A's two daughters.

These daughters died, one on November 18, 1944, and one on April 9, 1947. Under the terms of the two wills, they had powers of appointment over their shares in income in favour of their respective husbands. The first daughter exercised her power of appointment in both estates. The second daughter exercised her power of appointment only in respect of her father's estate.

It was contended that Section 55(1)(c) applies, on the ground that each of the daughters had a " beneficial interest in possession " in the income arising from 60 per cent. of the issued share capital of the company. Consequently, on their deaths in 1944 and 1947, estate duty is payable on the cesser of the respective life interest on the basis of the net values of the company's assets on those dates.

A claim such as this raises difficult questions of trust law as to the precise nature of the interest of a beneficiary in the trust fund and the meaning of the words in Section 55(1)(*c*) " a beneficial interest in possession." *Section 58(3) of the Finance Act, 1940,* seems to be designed to meet difficulties of this kind, but it does not give much help in this case.

The claim also raises questions of interpretation of the wills and here Section 58(3) gives no help at all. It is contended on behalf of the estate that, in view of the power of appointment enjoyed by each daughter over her half-share in the income of the trust funds, their interests are those of tenants-in-common for life of the income from the shares, and not those of joint tenants. In other words, each daughter was interested in the income of an *undivided half-share* of the trust shareholding, *30 per cent. of the issued capital* of the company, not 60 per cent. of the issued capital.

It is to be noted that neither of the daughters was a shareholder in the company, nor could they individually in any way control it.

It is suggested that some clarification is required, where shares are held in trust for two or more persons contemporaneously, as to what constitutes " a beneficial interest in possession in one-half or more."

(5) Section 55(3). The " when a person is deemed to have control of a company " provisions.

This provides that, for the purposes of Section 55, a person is deemed to have control of a company at any time if he then had:

(*a*) the control of powers of voting—

(i) on all questions, or

(ii) on any particular question,

affecting the company as a whole which if exercised would have yielded a majority of the votes capable of being exercised thereon; or

(*b*) the capacity to

(i) exercise, or

(ii) control the exercise

of any of the following powers,

(i) the powers of a board of directors or

(ii) of a governing director or

(iii) power to nominate a majority of directors or a governing director, or

(iv) power to veto the appointment of a director, or

(v) powers of a like nature, or if he could have obtained such control or capacity by an exercise at that time of a power exercisable by him or with his consent.

The following points have been raised regarding this sub-section:

(*a*) *Casting Votes*

The attribution of control to a person on the strength of a casting vote which is given to him under the articles as chairman of the company and of the board of directors can produce capricious results.

In one case, a company at all material times had three directors. Owing to differences of opinion, one of them was not re-elected at the annual general meeting of the company, which was held on September 21, 1948. At the next meeting of directors, held on October 4, 1948, two more directors were appointed to hold office until the next annual general meeting. (Under the articles, the number of directors was fixed at not less than two nor more than five). H., one of the two directors left in office after the annual general meeting, died on January 21, 1949.

His shares in the company fall to be dealt with under *Section 55(3) of the Finance Act, 1940,* because, for the period September 21 to October 4 (13 days), as chairman of a board of two directors, he had a casting vote in the event of a tie and was thereby able to control the powers of the board of directors. He could not have been outvoted during those thirteen days.

The matter has not been settled, but it may make a difference of 22s. 6d. a share or more in the valuation of his holding of 4,901 shares in the company (including 2,000 transferred to his wife within five years before his death) out of 10,802 in issue—less than half.

It is rather striking that a very common provision in a company's articles, often intended simply to facilitate the conduct of its affairs, should make such a difference, even though the power given was exercisable for such a short period and was not in fact exercised. Moreover, the result was brought about by the fortuitous circumstance of a difference between the three directors. It would have been the same if one of them had been run over by a bus. On such accidents can depend the basis of valuation of one of the *other* directors' holding of shares if he dies within five years of the accident.

(*b*) " . . . *control of powers of voting . . . on any question affecting the company as a whole* . . . "

It is thought anomalous that, if a preference share holder has a controlling interest relating solely to preference shares, but those shares carry votes solely on the question of sale of the company, or when the preference dividends are in arrear, then although he may have a controlling interest under *Section 55(3),* he may not have the 75 per

cent. voting control required by the *Companies Act, 1948*, to force the sale of the company on liquidation.

Thus a member may be deemed to have control by virtue of a right to vote on a specific question or in specified circumstances, yet should the question or those circumstances arise, his interest may be such that he does not in fact fully control the decision. He may be able to prevent, but not to secure, a liquidation, for instance.

It is submitted that the whole position of preference shareholders with regard to control needs re-examination.

The purpose for which Section 55 was enacted is fully appreciated, but it is suggested that sub-section 3 in particular is attributing " control " in a very " technical " sense to persons who in fact never exercised or perhaps never could fully exercise the power they technically possessed.

A recommendation was made to the Society that Section 55(3) might be amended so as to require that regard be paid to the extent to which control *has been* exercised during the five years preceding the date of death, rather than the existing test of considering whether control *could have been* exercised.

It is thought, however, that this recommendation might open the door once more to the mischief which Section 55 was designed to prevent, since a controlling shareholder, whose object in forming the company was to evade estate duty, might never in fact be called upon to exercise his powers of control because the knowledge that those powers existed was in itself sufficient to prevent any opposition to his wishes from expressing itself.

It is therefore suggested that the provisions of *Section 55 (3)* might be re-examined in order to ascertain whether it would be possible to require that regard should be had both to the existence of potential control and to the extent of its actual exercise within the five years preceding death.

In those cases where it was concluded that powers of control had not been designed for any purpose other than facilitating the conduct of the company's business and that they had not been used for any other purpose, a discretion not to apply Section 55 might be conferred on an appropriate authority.

(If our principal recommendation was adopted, there would be no case for this one.)

(6) Section 55(4). The " permission to deal " provisions.

It is felt by some of our members to be anomalous that if a company is large enough to obtain a Stock Exchange quotation, its shares or debentures will fall to be valued on the basis of the prices recorded on the dealings, provided that dealings in the ordinary course of business have been recorded during the year ended with the death of the deceased, whereas, if it is too small, it cannot obtain a Stock Exchange quotation. That Stock Exchange considerations should be the test of qualifying for this privilege is thought to be unfair.

(7) Section 55(5), read with Section 58(5). The " control held in a fiduciary capacity " exception.

The combined effect of *Sections 55(5) and 58(5)* is that " control of a company which a person had in a fiduciary capacity (imposed on him otherwise than by a disposition made by him, and in such a capacity only) " is disregarded for the purposes of Section 55. (The words in brackets are added by Section 58(5)).

The interpretation of this provision can cause great difficulty. At first sight, the effect of it is that if A, a deceased shareholder, held, say 49 per cent. of the voting power in his own right, and further votes in a fiduciary capacity only (as defined), the latter are disregarded for the purposes of the section.

A totally different effect which may be produced by this wording is as follows:

If B and C, sons of A deceased, hold 500 shares each in a company to which the section applies, and a bank holds the remaining 19,000 as executor and trustee of the will of A deceased, with full power to exercise all the rights of a shareholder in relation to the shares as if they were the absolute owners thereof, including the right to sell, etc., then the control of the company exercisable by the bank in a fiduciary capacity is wholly disregarded, and it follows that B and C (assuming they have exactly equal rights in all respects) could both be deemed to have control of the company, even though neither of them had any beneficial interest under the will of their deceased father (though in the actual case they had). The same result would follow if B and C were employee-directors and shareholders, unrelated to A.

If, in such a case, a bank actually exercised its powers to the full, preventing the board from making certain contracts and threatening dismissal if they persisted (as has in fact happened), the effect of sub-section 5 will be most unrealistic, so much so as to raise doubts as to the correct interpretation of its provisions.

It might be argued that the words " Control of a company which a person had in a fiduciary capacity " refer back to and echo the opening words of Section 55, " Where for the purposes of estate duty there pass on the death of a person dying after the commencement of this Act shares of debentures of a company to which this section applies, then *if the deceased had control* of the company, etc." If this is correct, " control of a company which a person had in a fiduciary capacity " means control which a *deceased* person had in a fiduciary capacity.

Moreover, since a fiduciary holding (as defined) is to be disregarded " for the purposes of this section " (Section 55), sub-section 5 appears to be limited in its application to shares or debentures of a *deceased* person to which, apart from sub-section 5, Section 55 would apply.

Nevertheless, this is not the interpretation which is being put upon the words in the case mentioned above.

That the question is difficult is confirmed by the fact that *Green's Death Duties, 2nd edition, 1947*, comments on *Section 55 (5)*: " This is taken to mean that, if a person has 50 per cent. of the votes in his own right and further votes in a fiduciary capacity, the latter votes cannot be taken into account." (Incidentally, in this comment the word " *had* " in Section 55(5) has turned into " *has* "). *Green's Death Duties, 3rd edition, 1952*, on the other hand, avoids all comment on the sub-section.

It is recommended that the meaning and effect of *Section 55(5)* be clarified, and in the sense here contended for, by the addition of the word " deceased " so that it reads:

" Control of a company which a *deceased* person had in a fiduciary capacity shall be disregarded for the purposes of this section."

The Basis of Valuation. Criticisms and suggestions regarding the basis of valuation laid down by Section 55(2) of the Finance Act, 1940.

Section 55(2) provides:

(*a*) That the net value of the assets of the company shall be taken to be the principal value thereof estimated in accordance with Section 7(5) of the *Finance Act, 1894*, less an allowance for all liabilities of the company, including contingent liabilities, other than those in respect of shares and debentures.

(*b*) That the aggregate value of all the shares and debentures in issue and outstanding at the death of the deceased shall be taken to be the same as the net value of the assets.

(*c*) That where shares and debentures are in issue, or different classes of either, the net value of the assets shall be apportioned between them with due regard to the rights attaching thereto respectively—except where a class of shares or debentures are dealt in on a Stock Exchange, in which case Section 55(4) requires that the apportionment shall be determined by reference to the prices recorded on the dealings in the shares.

(*d*) That the value of any share or debenture, or of any share or debenture of any class, shall be a rateable proportion, ascertained by reference to nominal amount, of the net value of the assets of the company, or, where both shares and debentures or different classes of either are in issue, of the part of the net value of the company's assets apportioned to that class under (*c*).

Section 59 defines " assets " as including goodwill.

The following suggestions have been put to the Society:

(1) Goodwill.

(*a*) The goodwill of a family business is often adversely affected by the loss of the principal director and shareholder. For sentimental reasons, the effect of the death upon goodwill may take some time to make itself felt. It is, therefore, not reasonable to value it solely on the basis of the profits of the company as disclosed by the accounts for a period *preceding* the date of death.

(*b*) The basis of valuation of goodwill should be *more precisely* defined, and *limited to goodwill arising on super profits earned.*

(*c*) It should only be taken into account if the business and goodwill are sold, or shares are realised at a price reflecting goodwill, within a specified period of, say, five years after the death of a controlling shareholder, because goodwill is an asset the value of which is largely dependent on realisation.

(2) The " Yield " Basis of Valuation.

If the Society's main recommendation were adopted, the basis of valuation in most cases where shares or debentures in a controlled company pass on death would be the same as that adopted for all other forms of property passing on death, namely, the open market value at the date of death. A valuation upon a different basis would only be made where there had been a direction to that effect.

But whether or not it is adopted, it is submitted that the reasonable basis of valuation under Section 55 is by reference to the yield as shown by the earnings of the company (regard being had to reasonable remuneration for working proprietors and to reserves) with guidance, where possible, from Stock Exchange prices of the securities of other companies in the same industry. This should be subject, however, to a reduction of the value so arrived at to the net amount realised on sale of the business or assets during the period of administration.

The " net amount realised on sale " here means the proceeds of sale, with allowance for any Profits Tax liability or balancing charges incurred as a result of the sale and of any distribution effected in connection therewith.

If there is no modification in the " net assets " basis of valuation, which invariably, according to the information given to the Society, results in amounts greater than those from any other method of valuation, the financing of business by private family companies is likely to be increasingly passed over in favour of other methods.

(3) Tax Liability.

Representations have been made upon tax questions when valuations are being made.

(*a*) *Profits Tax Non-Distribution Relief.*

It is felt that the contingent liability to profits tax at the full rate should be allowed for against the net value of the shares or in computing goodwill. The Society has been told of cases where the Estate Duty Office have made some allowance for this and the practice might be stabilised.

(*b*) *The general question of possible tax liabilities.*

The basis of valuation is an assumed sale of the business, either by piecemeal sale of the assets or as a going concern, and one of our members at least is of opinion that it is unrealistic to value the assets on these assumptions without taking into account the tax implications of those assumptions.

These possible tax liabilities are not true contingent liabilities on the facts existing at the date of death, and therefore, on the principle of *Re Duffy, Lakeman* v. *Attorney-General* (1949) 1 Ch. 28, cannot be taken into account as contingent liabilities under *Section 50(1)* of the *Finance Act, 1940.*

An example of the points which may arise is:

If piecemeal realisation of assets be assumed, balancing charges might arise. It is true that the cessation of business provisions would also apply, but these matters should be considered in arriving at the net value of the assets.

(4) Anomalies in Valuations.

Freehold or leasehold premises.

Among the instances cited to us are the following:

(*a*) In certain circumstances, doubts arise whether the Estate Duty Office are consistently applying the same method of valuation to all categories of the assets of the company. These doubts seem to arise where the assets of the company include freehold or leasehold premises.

For instance:

(i) Where a company owned freehold premises, and leasehold premises with an option to purchase, these were valued on the

basis of sale with vacant possession (the usual basis). Two of the premises were in a main shopping centre, and it was thought that the value of them included an element of " goodwill " attaching to the situation, but no allowance for this was made when fixing the goodwill value of the business.

(ii) Where the assets of a company included a freehold factory, this, too, was valued on the basis of sale with vacant possession, although in the same case the items " plant, fixtures and fittings, and motor vehicles " and " stock-in-trade and work in progress " were valued on a " going concern " basis. It was strongly urged that these valuations were inconsistent. Either the stock in trade was to be valued as if sold in the ordinary course of business by a going concern, on which assumption vacant possession of the freehold factory could not have been given, or, alternatively, vacant possession of the factory could be assumed, in which case the stock-in-trade ought to have been valued on the basis of a " break-up " sale.

In the second case, the executors were advised that the Estate Duty Office *could not* adopt mutually inconsistent principles like this, (in reliance, apparently, on *Ellesmere* v. *I.R.C.*, (1918) 2 K.B. 735.)

Dymond on Death Duties, 11th edn., 1951, p. 258 follows the note on this case with the words:

> Where, therefore, it would pay to sell the company's business as a single entity as a going concern, the valuation will proceed on this assumption; but where the assets would fetch more if sold piecemeal, a realisation on this basis must be assumed.

This clearly implies that the two assumptions are alternatives. One or the other must be applied to the assets as a whole, but not one of them to one class of assets and one to another.

Green on Death Duties, 2nd edn., 1947, and 3rd edn., 1952 does not make any such comment on this case.

This question of valuing premises on the basis of sale with vacant possession might be re-examined. It appears to involve a change in Revenue practice, not a change in the law, and only to involve such a change where the " going concern " basis is being applied to the assets as a whole.

(*b*) *Different Death Duty Valuations of the Same Shares.*

Two instances can be given of cases where shares in companies were valued at totally different figures for the purposes of estate duty (under Section 55) and legacy duty. That identical assets can be valued at two quite different amounts, and in each case for the purpose of a death duty, shows very clearly the harsh and anomalous nature of the valuation required by Section 55.

(i) Shares in a controlled company, which at no time had changed hands at more than 15s. 9d. a share, were valued under Section 55 at 35s. 11d. each, although the shares were unsaleable at the time and estimated to be actually not worth more than 10s. each. The shares were valued for legacy duty at the date the Residuary Account was filed at 6s. each on the basis of 2s. per share plus declared dividends between date of death and date of account.

(ii) Ordinary shares in a controlled company were valued at £3 11s. 2d. each under Section 55. They were left by the deceased to his family as specific legacies. Valued as at the same date, they were agreed at 30s. each in respect of a legacy which gave control of the company and 20s. each for the remaining legacies, which did not give control.

Had all the shares been valued on the basis agreed for legacy duty, the saving in estate duty would have been £19,846.

Had all the shares been valued at 20s. each, which is a reasonable approximation to the value at which they would have stood had they been quoted on a Stock Exchange, the saving in estate duty would have been £22,433.

The valuation and rate of duty applicable in this case had the not uncommon effect of forcing the sale of all the " outside " assets of the estate as well as some of the shares in order to pay the duty. As a result, the deceased's widow lost the benefit of certain specific legacies, e.g. the house she occupied, the deceased's personal effects. This, too, is a not uncommon result of a Section 55 valuation coupled with the high rates of duty now in force.

Another instance is:

(iii) H died in 1949. He had a controlling interest in his company. The asset value per share in his case was £1 19s. 10d. a share, although the company had been making losses for the preceding 5 years (after charging director's fees of £500 a year). H's widow died two years later. She had not a controlling interest and her shares were valued for probate at NIL, although in the two intervening years the company had made small profits—none of which were available for dividend.

(*c*) *Apportionment of the Net Asset Value to Different Classes of Shares.*

Where there is in issue a class of preference shares which are quoted and dealt in on a Stock Exchange and other classes of shares not so quoted, it is necessary to apportion the net value of the assets to the preference shares on the basis of the Stock Exchange price for them.

This appears to be in conflict with the provision in Section 55(2)(c) that the apportionment shall be effected with due regard to the rights attaching to the different classes but it is required by Section 55(4).

It is submitted that this practice results in an apportionment of the net values which is inequitable to the holders of the equity in the company.

The following exemplifies the point:

	£1 Shares
Preference shares in issue, dealt in on a Stock Exchange	100,000
Ordinary shares in issue, not dealt in	10,000
Total share capital in issue	110,000
Value of the net assets of the company.	£110,000

The preference shares are 5 per cent. cumulative preference shares, repayable under the articles at par in the event of a reduction of capital or liquidation. The Stock Exchange price is 13s. 4d. per share.

	£	s.	d.
Value of the preference shares, on the basis of the Stock Exchange price	66,666	13	4
Balance, being the value attributed to the ordinary shares...	43,333	6	8
	£110,000	0	0
But the true value of the equity is	10,000	0	0
Therefore, the equity is over-valued by ...	33,333	6	8
	£43,333	6	8

It is accordingly recommended that Section 55(4) should be amended by the omission of the words " and, in making an apportionment under paragraph (c) of sub-section (2) of this section " to the end of the sub-section.

SECTION C

Financing the Payment of Duty.

In an appreciable number of cases, owing to the rate and amount of duty involved, the problem of financing the payment of duty is serious.

Sale of the shares can seldom be effected except at a figure which represents a substantial loss as compared with the value placed upon them under Section 55. It has sometimes proved impossible to sell even a controlling interest at a figure representing a 25 per cent. return out of the profits of the company on the money invested—which compares unfavourably with the tendency of the Estate Duty Office to suggest that a 10 to 15 per cent. earnings yield is adequate. It has sometimes proved impossible to sell the shares except at a figure representing a considerable sacrifice from any point of view.

Sometimes it is difficult for the executors to dispose of a controlling interest. The deceased may by his will have left a controlling interest among several minority shareholders. This adds to the difficulties, but no account is taken of it.

It is not always feasible to dispose of the whole of the deceased's shareholding or of the whole undertaking of the company even where it is theoretically possible. In some cases, the principal or only income-producing asset of the estate is the company (so to speak), and the necessity of providing income for a widow or other dependants (including on occasion children unable to earn their own living) dictates a policy of preserving some stake in the family business—apart from the natural desire of families to preserve the link with the family business, which some will seek to preserve at almost any cost.

One minor difficulty which has been mentioned to us is that, on occasion, a casting vote as chairman of the board, on the strength of which a deceased member with a 50 per cent. holding was held to have controlled the company, passed on his death to another director, so that his 50 per cent. holding could not be sold with a controlling interest, and consequently could not be sold at anything like the value placed upon it for estate duty purposes.

In these circumstances, it is natural to think of having *recourse to the company's funds and assets* by reference to which the shares or debentures of the deceased are valued. Indeed, cases have been quoted to us where all the "outside" assets have been sold and have realised insufficient to discharge the duty so that either the shares must be sold (subject to the difficulties referred to above) or funds must somehow be obtained from or through the company. This is not always easy or desirable. The interests of the company or of minority or other shareholders often forbid a loan by the company, or any other form of financial assistance by the company, quite apart from possible tax considerations. Nevertheless, executors are sometimes forced to adopt this expedient, although it can have serious effects on the company's finances, expansion of business, modernisation of plant and machinery, etc. The logical end of all this is the elimination of family control and management of businesses.

Another type of hardship of which we have been given an example arises where, in order to provide an income for a widow in a case where all the "outside" assets had to be sold, she was given a seat on the board and a director's salary was paid to her. This results in a profits tax charge, if she cannot be termed a "working director."

Another case has been quoted to us where, owing to the seasonal character of the business and the date when the death occurred, it would have been impossible to dispose of the business at all at that time except at a very heavy sacrifice, and the executors, who were specifically charged with the duty of maintaining the widow, were forced to continue the business themselves, discharge the heavy duty, and keep up payments on the company's overdraft at the bank. In this connection it is pointed out that, since probate will not issue until the executor has discharged the duty for which he is accountable, it is a common practice to arrange a temporary loan from a bank, and the executor is usually required to give a personal guarantee for the repayment of the amount borrowed on behalf of the estate.

In yet another case, there was complete frustration of the testator's not unreasonable intentions owing to the incidence of estate duty. The deceased had no sons or other relatives. He left his shares on trust to pay the income to his widowed sister for life and on her death two employee directors were to have the opportunity to buy them on very favourable terms. He specifically directed his trustees not to dispose of the shares, in order that the tenant for life might have a reasonable income. In fact, all of them had to be disposed of to an outside group in a manner which completely defeated the testator's intentions.

Particulars of 36 cases of hardship have been given to the Society in connection with this inquiry. A brief analysis of these is appended:

(1) *All except 5 out of 36* illustrate in greater or lesser degree the difficulties and rearrangements which face executors, and sometimes companies and dependants of the deceased, where family companies are involved. The principal causes of these difficulties are the high rates of duty now in force, coupled with the basis of valuation imposed by Section 55.

The 5 cases referred to provide examples of particular difficulties arising in the circumstances in interpreting and applying the provisions of Part IV of the Finance Act, 1940, or of particular hardships arising in the circumstances.

(2) *Of the remaining 31 cases:*

(*a*) *One company has ceased to trade* and is going into liquidation. (This is a possibility in a second case, not yet settled, included at (*d*) below).

(*b*) *Three companies have been sold outright,* before or after death, to large public companies.

(*c*) *One company must be either sold outright or wound up,* owing to three deaths: of the founder in 1952, of his wife in 1951, and of his son in 1953.

(*d*) *In 7 cases, the sale of all the "outside" assets did not realise sufficient to pay all the duty.* There is reason to think this may be

true of 4 more cases, though the particulars given are not explicit on this point.

(*e*) *In 5 other cases, it may be necessary to sell all the "outside" assets.* In one of these the death has already occurred and such a sale is regarded as inevitable, although it has not yet taken place. In the other 4 cases, the contemplated death has not yet occurred, and such a sale is at present only a possibility. In all 5, it is likely that such a sale will not realise sufficient to pay all the duty.

(*f*) *In 5 other cases, the family structure of the business has been modified* by exchange of shares, obtaining permission to deal or the flotation of public companies. (Reference to the files of the *Financial Times* for the past twelve months would provide further examples).

(*g*) *The remaining 7 cases* illustrate generally the difficulties involved in paying a large amount of duty, and the difference between a Section 55 valuation and a valuation on any other basis.

The Society's inquiry was confined to cases of hardship, but after allowance has been made for that fact, we are forced to the conclusion that some distortion of the economy by the gradual suppression of the private family company is taking place.

These disturbing effects in many cases make their influence felt long before a death occurs.

The difficulties are caused largely because a normally prudent policy of ploughing back profits into the business has been pursued. This policy was pursued long before profits tax added a new reason for doing so, and in many cases without any thought of thereby avoiding the payment of estate duty. They are also caused partly by inflation, with the consequent need for additional finance within companies.

It is appreciated that Section 55 was necessary to stop some abuses of the company method of running a business and controlling assets so as to evade duty, but the effects of that section on family companies, which are still responsible for a large part of the productive and taxpaying enterprise of the country, merit serious examination, and it ought to be asked whether the amount of additional duty which is collected as a result of the application of Section 55 is worth the disturbing and disincentive effects which it has produced and is producing in family businesses.

As Mr. Justice Donovan said in *R.* v. *Bates and another*, (*1952*) *2 All E.R. 842, 844,* "The patch, in other words, has been larger than the hole. A neat example is Section 21 of the Finance Act, 1922." In the Society's view the learned Judge might with equal propriety have referred to Section 55 of the Finance Act, 1940. It is submitted that this patch is not only larger than the hole, but is pulling the garment out of shape.

Particular Suggestions to Facilitate the Payment of Duty.

The following suggestions have been made to the Society and are submitted for consideration:

(1) The Grant of Representation.

Representation might be granted before the estate duty for which the representatives are accountable has been paid, in those cases where there is difficulty in realising out of the estate the amount payable.

This would enable the representatives to proceed with sales of assets, and might avoid the necessity of their arranging temporary loans from banks with the concomitant interest and the personal liability upon the guarantee for repayment of the loan.

(2) Payment of Duty by Instalments.

Several suggestions were received to the effect that, where the main assets of the estate are shares or debentures in a family business, the duty thereon might be payable by instalments over a limited period. This would be a valuable concession.

One suggestion was that it should be payable by instalments over five years. Another was that, where shares or debentures in a controlled company form more than 75 per cent. by value of the estate, the payment should be spread over ten years, the Revenue being given power to take security for the amount owing by deposit of title deeds to property.

The precedent provided by *Section 6 (8), Finance Act, 1894,* in the case of real property might be followed, and the duty made payable by instalments spread over eight years.

(3) Payment by Annuity charged on the Income from the Shares.

Similar to the above is a suggestion that the payment of the duty applicable to the shares or debentures in a controlled company might take the form of an annuity payable to the Revenue for a limited number of years, charged upon the subsequent income arising from the securities, with power in the Revenue to demand repayment or redemption and to appoint a manager of the company pending redemption if the payments should fall into arrear.

(4) Interest.

If the payment of the duty referable to the shares or debentures in a controlled company over a period of years were allowed, it might be provided that no interest should be charged upon instalments outstanding, but only upon the arrears of any past instalment or instalments.

(5) Profits Tax.

Several suggestions were received that the law might be amended so as to absolve a company from liability to profits tax at the full rate (where it arises) on "distributions" effected solely for the purpose of financing the payment of estate duty.

The additional tax liability is resented and adds to the difficulties. It can be avoided by sale of the securities, but this is often not easy or not desired for reasons already discussed.

(6) Sur-tax.

Similar considerations apply to sur-tax in those cases where a liability to sur-tax may arise by reason of the declaration of large dividends made with a view to enabling the deceased's representatives to discharge the liability for the payment of duty.

(7) Reconstruction of the Company.

Another suggestion to facilitate payment of estate duty was that there should be a reconstruction by the formation

of a new company with a smaller capital to take over all except the liquid assets required for the payment of the duty. Legislation should provide that exemption from stamp duty on any transfers of assets and exchanges of shares should be given.

(8) Capital Reduction.

Another suggestion was that there should be a simplified procedure for reducing a company's capital by repayment of cash to the shareholders, in those cases where this procedure could be employed.

The two foregoing schemes might be made subject to approval by the Board of Trade or some other department, to be obtained by way of proceedings before a special tribunal charged with the duty of approving any such scheme.

(9) Rapid Succession Relief.

One member thought that the exclusion from rapid succession relief of shares in controlled companies should cease.

The relief should be made applicable to shares in companies in the same way as for land and businesses not carried on by companies.

(10) Company Mortgaging Assets.

Where Section 55 applies, companies should have power to raise money on the security of their assets for the sole purpose of paying duty on the estate of the controlling shareholder, provided there are adequate safeguards for minority shareholders, who might be required to give their consent to any such arrangements.

(11) Life Policies to provide funds for the Payment of Estate Duty.

Up to the amount of the estate duty payable, life assurance policies expressed to be taken out for the purpose of providing funds for the payment of estate duty on the death of the life assured might be granted some exemption from duty, or exemption from aggregation.

Such special treatment is a natural sequence to the income tax treatment of life assurance premiums and to the exemption from aggregation of "nominated policies" under the combined effects of *Section 4, Finance Act, 1894*, and *Section 11, Married Women's Property Act, 1881*.

SECTION D

Administration.

In our main submission we have recommended a special fact-finding commission to decide whether a company was formed (and related transactions effected) with the avoidance of estate duty as the main purpose or one of the main purposes, or whether it was an ordinary trading or commercial company, with power on the basis of its finding to direct that Section 55 be applied where the avoidance motive is proved.

It is suggested that the constitution of this tribunal should be similar to that of the Board of Referees or the Lands Tribunal. It should be a small tribunal with members drawn from the official, professional and business worlds. The members should be experienced in the specialised task of valuing unquoted shares in private companies. The procedure should be as simple and cheap as possible.

It should be provided that, subject only to appeal to the Board of Referees, the decision of the tribunal on matters of fact and on the valuation of the assets of, or of shares in or debentures of companies, should be final. Appeals on points of law or of mixed law and fact would lie to the High Court.

In addition to deciding whether facts have been proved which justify the application, by direction of the commission, of Section 55 to shares in or debentures of a controlled company, the tribunal might be empowered to hear and determine all disputes referred to it by either party relating to the valuation of the assets of or of the shares in or debentures of companies generally for estate duty purposes. Valuation here includes the apportionment of the values of assets to different classes of securities.

It is thought that the existence of such a tribunal would lessen the delay which often occurs in settling a Section 55 or Section 46 case, delay which (through no fault of those concerned) seems to us in some instances to be, from any reasonable point of view, scandalously long. In the worst example quoted to us (from this point of view), it was nine years before the valuation and liability to duty of a large estate were agreed. It is to the interest of all concerned—the Estate Duty office, the executors and the beneficiaries of the estate—that the matters in issue should be determined as expeditiously as is possible.

The interest of justice would also be served by such a tribunal. The prospect of long and costly litigation in the High Court often causes representatives to agree to a compromise even though points in issue may be genuinely in doubt owing to difficulty in interpreting the relevant provisions of the Act or of a will, settlement, etc.

In one case mentioned to us where an executor felt that hardship and injustice had been caused, the case was not carried further because the amount involved was out of proportion to the probable cost of an action.

A tribunal with a simple, quick and cheap procedure would go far to remove any cause for such complaints.

Other Anomalies.

Our inquiry has, in terms of the Board of Inland Revenue's letter of July 3, 1953, paid particular regard to Section 55, Finance Act, 1940, but some other anomalous features of the present law of estate duty were mentioned:

(1) Attorney-General *v.* Oldham (1940) 2 K.B. 485.

The Court of Appeal held in this case that bonus shares issued in respect of an original holding which was the subject matter of a gift within the statutory period were:

(*a*) not deemed to have been taken under the gift (being issued by the company, not given by the donor),

(*b*) not deemed to pass on death, and

(*c*) not therefore aggregable and chargeable to estate duty.

On the other hand,

in *Re Payne; Poplett* v. *Attorney-General*, (*1940 Ch. 576*), the same Court held that where a settlor dies within the statutory period after executing a voluntary settlement, the property subject thereto of which the value has to be ascertained for the purpose of estate duty payable under Section 2(1)(e) of the Finance Act, 1894, as varied by Section 59 of the Finance (1909-10) Act, 1910, is the trust property as it actually existed at the date of death of the settlor, and not the property which was put into the settlement when it was executed.

The practical effect of this latter decision was that bonus shares formed part of the natural increase of the fund and were aggregable and chargeable with estate duty.

There are theoretical distinctions between the two cases, but in their practical effects they create an anomaly.

(2) Marginal Relief.

In order to avoid the hardship which would result from the charging of estate duty on estates the value of which slightly exceeds the maximum amount applicable to any particular range of duty, provision has been made for marginal relief.

Whilst this procedure avoids one anomaly, it automatically creates another.

The most striking example of this, which typifies the anomalies which exist in a minor degree in relation to all the other rates of duty, is:

On estates exceeding £1 million, the rate of duty is 80 per cent. and marginal relief operates up to £1¼ million. Thus, whether the estate is £1 million or £1¼ million, there remains after payment of duty the sum of £250,000. The only difference is in the amount of duty payable.

It is thought that the construction of a table upon the "slab" system, following the lines of that adopted for graduation of sur-tax, would effect a more equitable charge to duty.

(3) Section 72, Finance Act, 1952 and Section 46, Finance Act, 1940.

One of the effects of *Section 72 of the Finance Act, 1952*, is to nullify the decision of the House of Lords in *St. Aubyn* v. *Attorney-General*, (*1952*) *A.C. 15*, where it had been held that a payment of money to a company to procure an allotment of shares was not a transfer of property within the meaning of *Section 46 of the Finance Act, 1940*.

One can visualise a case where two persons of similar intentions are desirous of acquiring shares in a company. Circumstances dictate that one shall acquire his holding by transfer and the other by subscription. Upon acquisition of their respective holdings, their positions within the company as regards service, remuneration and benefits are identical. Nevertheless, upon their respective deaths it appears that the holding of the former (acquisition by transfer) would be valued on the basis of market value, whilst that of the latter (acquisition by subscription) would invoke the provisions of *Section 46 of the Finance Act, 1940*, as amended by *Section 72, Finance Act, 1952*.

(4) Co - Partnership Profit - Sharing Scheme for Employees and Section 46, Finance Act, 1940.

In one case of which we have been told, the executors were advised that, in the circumstances, a distribution to *employees* under a profit-sharing scheme in force could be treated as profit available to the proprietary directors under *Section 46 et seq.*

This, if correct, is extraordinary, and since the distribution to employees is of the order of £18,000 out of profits (before tax and directors' remuneration) of £60,000, the possible liability is far from negligible.

It is thought that Section 46 *et seq.* might be amended so as expressly to exclude from benefits to the deceased the amounts of profits shared among employees under a co-partnership profit-sharing scheme introduced by the company.

(5) Life Tenant Exemption.

Where one spouse leaves his or her estate to the other for a life interest or in life rent, estate duty is not payable on the death of the life tenant or life renter.

If often happens that two or three brothers and sisters (or brothers, or sisters) held what is virtually a joint estate and death duties are payable on the death of each.

It is thought that the exemption from estate duty on the death of a surviving spouse life tenant or life renter might be extended to include the brothers and sisters of a deceased person who have a life interest in the estate or part of it.

Alternatively, Quick Succession Relief might be extended to cover such cases.

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JANUARY 1954 *TWO SHILLINGS*

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